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Estate Freezes**

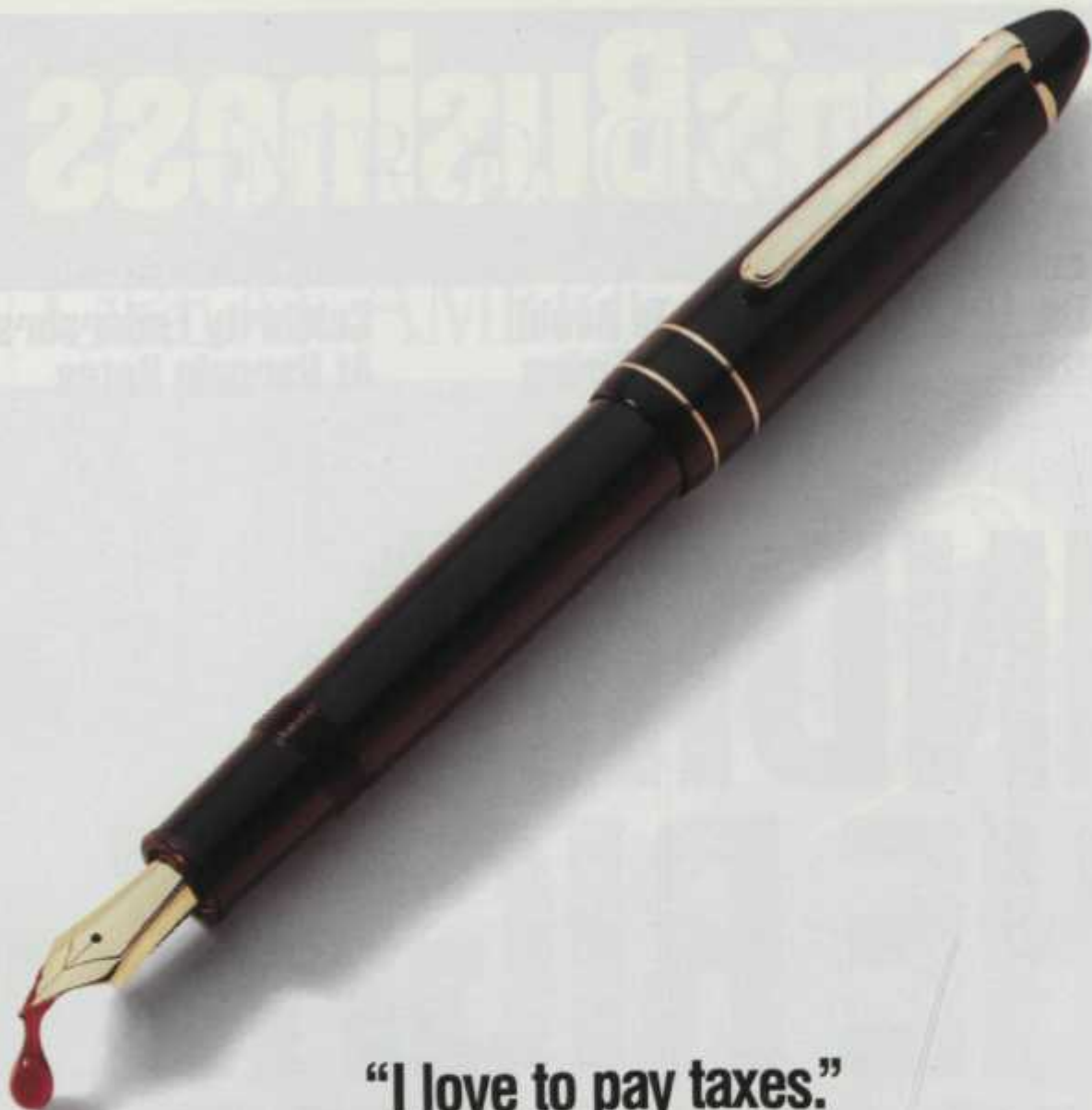
**Pitfalls To Avoid  
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# Nation's Business



PHOTO: ©JIM PICKENELL—POLJO INC.

**Worker shortfall:** Although there will be a tight supply of labor during the 1990s, there are ways you can find and keep the trained or trainable employees your firm needs. Cover Story, Page 16.



PHOTO: COURTESY OF CURTIS MANAGEMENT GROUP

**Still working:** Babe Ruth and other late greats are becoming the immortals of advertising. Marketing, Page 26.

## COVER STORY

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The worsening shortage of both skilled and unskilled labor is affecting small companies, particularly those that require employees to be well trained and versatile. Here are the roots of the problem—and some remedies you might apply for your firm.

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Your response to this survey will give you a voice in the debate in Washington on a number of critical tax issues.



Published by the  
U.S. Chamber of Commerce  
Washington, D.C.

# Editor's Note

## The Search Continues



PHOTO: T. MICHAEL KEZA

**Iron work:** Blacksmith David Mathews' Ozark mountain road to opportunity. *Making It*, Page 12.

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Cover Design: Hans A. Baum  
Cover Photo: Jim Pickrell—Folio Inc.

This month's cover story reflects a seeming paradox in our economy today: The nation is in a recession, but many companies are still having trouble finding workers. There was a time when the size of the pool of available workers expanded and contracted in direct relation to the health of the economy. That is no longer the case, as Senior Editor Joan Szabo makes clear in our cover article, on Page 16. Finding the right workers—trained or trainable—to meet specific needs of today's employers is a challenge that transcends economic cycles. This article will not only help you understand the reasons why employers have had increasing difficulty in hiring the right workers for the right jobs, it will also give you specific advice on what you can do in your business to cope with this trend.



PHOTO: T. MICHAEL KEZA

*Retraining an older worker.*

The terms Section 2036(c) and estate freeze are of vital importance to every business owner concerned about passing a firm on to heirs without incurring destructive tax liabilities. The estate-freeze method, which once helped owners achieve that goal, was abolished. Now it has been restored in a somewhat different form. The details are in "Congress Thaws The Estate Freeze," beginning on Page 23. It's surely another article you'll want to file.

Celebrity endorsements have long been a highly effective advertising strategy. But they carry a certain risk. If scandal erupts around the celebrity, the product's sales can suffer. Some creative entrepreneurs have found a way to guarantee that the celebrities whose names and photographs they lease to advertisers won't do anything to embarrass anybody. The article "Undying Support," on Page 26, explains. You'll enjoy this offbeat report.

*Robert T. Gray*

Robert T. Gray  
Editor

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# Who are you going to have to be today?



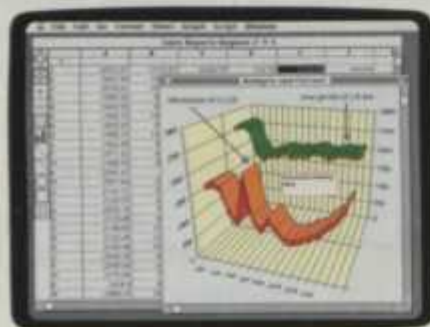
Sales Manager?



Customer Representative?



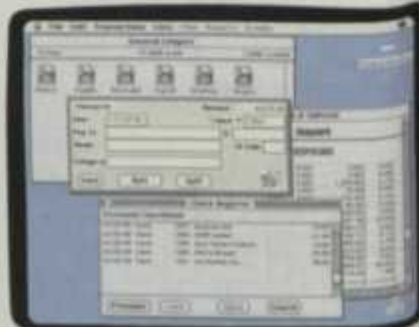
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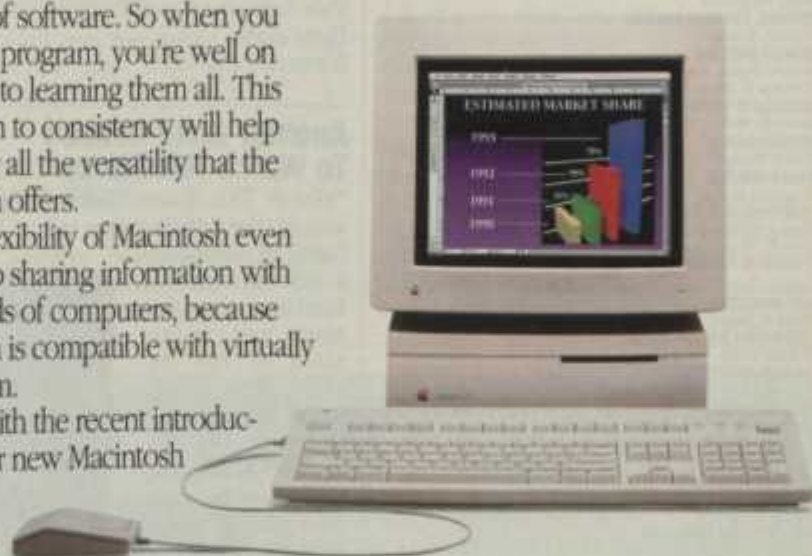
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## Letters

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## Before A Moratorium, Check With Customers

Customers, not creditors, are the key to success in a plan for a moratorium on debt to unsecured creditors ["Take A Breather From Bills," Managing Your Small Business, December]. Creditors will normally go along with any reasonable plan, but sales will likely suffer as your customers, anticipating the worst, justifiably seek to cover themselves. This sales drop could torpedo your plan.

Dave Ache

Hanover, Pa.

## Another Good Reason To Watch The States

"Watch The States" [November] overlooked the giant steps taken by Kentucky in educational reform, equity of funding mechanisms, and the creation of the nation's first workforce development program.

The Kentucky plan is so progressive that it is the only education program in the nation that the federal Department of Education has specifically assigned staff to study.

Wallace G. Wilkinson

Governor of Kentucky  
Frankfort, Ky.

## It's Time To Hold Representatives Accountable

Your December editorial ["For A Change, Politicians Should Start Listening To The People"] is superfluous as long as we are in the grip of the arrogance of incumbency. "Voters' attitudes" are meaningless as long as people like [Rep.] Dan Rostenkowski [D-Ill.] can run for office unopposed and continue to build political war chests that can only be described as obscene.

Rostenkowski has been at this since he was 24 years old, when he got his first political job in the old Richard Daley machine, and has never contributed a whit to the private sector.

Congressional representatives must be held accountable. Under the present

system, however, that is impossible.

Limiting congressional terms is the one step that will have the single most beneficial effect on our economy, the country, and its citizens.

Dan Calabria, President  
Templeton Funds Management, Inc.  
St. Petersburg, Fla.

## There's Nothing Wrong With Hard Work

Elizabeth Dole should take another look at child-labor laws ["Labor Secretary Wants Balance On Youth Labor," Small-Business Update, August]. Basic work ethics need to be taught while people are still young.

Employers who are trying to teach young people a trade or help them increase their skills should be rewarded

for their efforts in training and teaching, instead of being fined.

M.O. Beier  
Beiers Greenhouse  
Grand Rapids, Minn.

## A Quick Tour For Credit

"Allies For Growth" [November] missed giving the credit for the Circle Tour of Lake Superior to its early promoter, the Lake Superior International Highway Association.

tion, a consortium of representatives of communities (Canadian and American) surrounding Lake Superior.

Roger Caron, President  
Racine Area Manufacturers and Commerce, Inc.  
Racine, Wis.

## The Pain Of The Solution May Be Worth It

The Dateline: Washington item on the new federal clean-air law [December] is right that the new statute will require economic sacrifices. It is true that business in America will suffer due to these mandates. But we cannot ignore the problem of pollution any longer. We all need to protect our children's future endeavors, if not our own.

Jason Rosin  
San Diego, Calif.



PHOTO: GOVERNOR'S PHOTO OFFICE

Gov. Wilkinson signs education bill.



## Spread The Good Advice To Family Businesses

I read the excerpt from the book *Your Family Business*, by Arthur Pine ["Ten Tips For Working With Nonfamily Employees," January], and found the advice to be right on target.

I will use it to advantage in my own family business (like the Pines, we, too, are a father-and-son combination) for years to come.

In fact, the excerpt inspired me to buy the book, which I have also found to be filled with wonderful advice and tips.

**Martin Markowitz**  
President  
Maverick Supplies, Inc.  
New York, N.Y.

## Don't Forget Nurses For Cost-Effectiveness

"10 Ways To Cut Your Health-Care Costs Now" [October] focused on re-evaluating and renegotiating insurance options. But nurses enhance the quality of care and lower total system costs.

So, if cost-effective health care is



PHOTO: JAMES PICKERELL-FOUO, INC.

what you are seeking, invest in nursing.  
**Stephanie Bonvallet, R.N.**  
Algonquin, Ill.

## The Infrastructure Is Due Some Help

Thank you for recognizing the Perma-Jection process designed to provide long-range preservation for our infrastructure ["The Next Challenge," En-

trepreneur's Notebook, December]. I received hundreds of responses within a few weeks of its publication.

Repetitive costs on repairs of roads, bridges, buildings, and underground facilities has become an accepted everyday fact. Unless these wasteful practices in the construction and preservation fields are checked, we all will be paying for them in higher taxes. This is the costliest problem that our nation is facing. In your August 1989 cover story, "Our Crumbling Infrastructure," you put the cost at upwards of \$3.3 trillion.

If we simply shift from short-term to long-term preservation, we will save money and improve the infrastructure.  
**J.S. Wyner, President**  
Perma-Jection Corp.  
Richmond Hill, N.Y.

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# Managing Your Small Business

*Worker motivation, morale building, and fair executive contracts.*

By Bradford McKee

## MOTIVATION

### To Drive Employees, Give Them The Wheel

One effective way to motivate workers is to let them help with big plans—down to the last detail—a Seattle company has found.

Recreational Equipment Inc. is rebuilding its distribution center, where 250 employees work. The company used a "team approach" to design the new 500,000-square-foot facility, says Sharon Deibert, the company's distribution director. Since the company's employees started taking part in the building plans, they have appeared to be "more productive and more motivated," she says. "It's like they're partners" with management in making the decisions, she adds.

Warehouse managers mapped the flow of materials handling in the new center, Deibert says. Then, before buying loading equipment, the company had workers test models as part of a cost analysis.

"Supervisors determine the broad picture" of how the warehouse will function, and the employees "work out the details," says Deibert. She says aesthetics are in employees' hands as well. "Culture groups" in the firm's divisions chose colors and styles of furnishings, tile, and paint.



PHOTO: © DODD NELSON—BLACK STAR

**Motivated:** Employees at Recreational Equipment Inc. help Sharon Deibert, seated, design a workplace.

## ORGANIZATION

### Have Problems? Open Up, Internally

Focus on employee morale during the first half of 1991, a time that analysts say will be tough for small business. Your company may have to postpone expansion plans and promotions to concentrate on leanness.

Richard J. Anthony, an organizational consultant with the Alexander Consulting Group Inc., in Lyndhurst, N.J., offers these suggestions to help your team make the best of the pinch:

■ If promotion opportunities vanish, create appealing lateral moves for employees who may feel stifled by "slow or no" career progression. Expanding their responsibilities may give them as much a sense of progress as a formal promotion.

■ Let every employee know if the recession puts the firm at risk. Urge them to take the threat personally and

respond by producing higher-quality work or better service. Spread the rewards gained for harder work by using incentive programs or flexible benefits based on performance. Always be frank about your company's health.

■ In your frankness about your company's economic health, make it clear to workers that "change is constant" in your firm.

Such openness with your employees might generate creative solutions for company problems, says John R. Hinrichs, president of Management Decision Systems Inc., a Darien, Conn., consulting firm.

Hinrichs says secretive, "closed" management is "no longer appropriate" for most companies, especially those feeling hard knocks.

"Solicit [employee] creativity" rather than keep silent about company woes, Hinrichs says. "It's time to begin practicing that type of management."

## RECRUITING

### Don't Promise Too Much To New Executives

Watch your firm's executive contracts this year, search experts recommend. Many talented executives who have lost their jobs are looking for work, but they also are seeking contracts with new employers that guarantee job security—or at least financial security.

You should be careful not to promise too much to attract new managers, say recruiting experts. When jobs become scarce, the employer holds more bargaining power than the executive.

"Walkaway" clauses, which let executives quit and also receive severance, should apply only for a "good reason," such as demotion or relocation, says recruiter Pearl Meyer, president of Pearl Meyer & Partners Inc., in New York. Avoid contracts that renew automatically, Meyer says. Instead, try for contracts with fixed terms, so either party must give notice before terminating.

Stick to "reasonable and fair" job-security provisions, says Hal Johnson, a New York search consultant with Korn/Ferry International.

Large-scale work-force cuts such as those occurring in financial firms, Johnson says, make the 1991 executive pool a "buyer's market."

## NB TIPS

✓ A guide for measuring workers' performance has been developed by the American Productivity and Quality Center. Using 10 measurement models for specific jobs, it shows how to select criteria to measure all types of occupational performance. The guide, "The Master Measurement Model of Employee Performance," was prepared with a grant from the Society of Incentive Travel Executives Foundation. For more information on the foundation and copies of the guide, contact the foundation's executive director at 21 W. 38th St., (10th Floor), New York, N.Y. 10018.

✓ *Tips on Effective Customer Relations and Complaint Handling*, a 12-page brochure, outlines why customers complain and how you can form a customer-relations policy. It is available for \$1 from the Council of Better Business Bureaus, 4200 Wilson Blvd., Arlington, Va. 22203.



# Dateline: Washington

*What's happening in the corridors of power that will affect your business.*

## RECOVERY

### U.S. Chamber Offers "Strong Medicine" To Spur Recovery

The U.S. Chamber of Commerce has developed an aggressive anti-recession plan that it describes as "strong medicine for an ailing economy."

The key ingredient of "The Economic Growth and Jobs Creation Act of 1991" is quick and meaningful tax relief.

The Chamber is urging the White House and Congress to get behind the plan or risk prolonging the recession.

Achieving the goals of the proposal, the business organization says, requires an immediate reduction in the cost of labor, capital, and savings.

That would be achieved by reducing the capital-gains tax rate to 15 percent, cutting the Social Security tax rate by 1 percentage point each for employers and employees, and new incentives for family savings and for investments in plants and equipment.

Other proposals call for budget restraint, sharp curbs on new federal regulations, and Federal Reserve Board adoption of "sound, predictable policies" to dampen inflation.

All changes would be retroactive to Jan. 1.

Without enactment of its plan, the Chamber says, "the economic outlook is bleak." Inaction now would extend the recession through the rest of this year, which would result in a heavy toll "in



PHOTO: © RIA WELLES—FOCUS, INC.

*Jobs creation is a key goal of its tax-relief plan, the U.S. Chamber says.*

human and economic terms."

The organization added: "Unless the Bush administration and the Congress take immediate steps to get the economy moving again, they must, and will, be held personally responsible for the economic pain and misery that will almost surely result."

## POLITICS

### Term-Limit Groups Hope To Maintain Momentum Of 1990

Advocates of a constitutional amendment that would limit congressional terms are seeking ways to retain the visibility they gained in the 1990 elections.

California, Colorado, and Oklahoma set limits on terms of state lawmakers, which raised public consciousness of the issue as it affects the national legislature. (Colorado's action also applies to members of Congress, but that provision will probably be challenged in court on constitutional grounds.)

Eddie Mahe, a political consultant who founded Americans to Limit Congressional Terms (ALCT), says the organization's plans for 1991-92 include encouraging voters in additional states to

pass term limits for their legislatures, thereby gaining visibility for the national campaign. ALCT also plans an aggressive effort to have candidates for what will be an unusually large number of open congressional seats in 1992 pledge support of a limitation amendment.

Mahe says the organization realizes that it is not going to be easy to convince current members of Congress to approve an amendment limiting terms of service.

Advocates of the idea say that term limits would assure a continuing influx of new members and fresh thinking in place of entrenched, professional lawmakers.

Opponents say that limits would deprive the nation of the services of experienced legislators.

## INTERNATIONAL FINANCE

### German Capital Needs Could Raise U.S. Interest Rates

The Joint Economic Committee of Congress says that German fiscal policies could drive up U.S. interest rates between this year and 1995.

"Germany is incurring large budget deficits, higher interest rates, and a rising exchange rate as it reorganizes the relatively backward state-run economy of eastern Germany," the committee said in a recent report.

"As a result," the report says, "Germany will be supplying much less saving for the rest of the world, including the United States."

As Germany's capital needs increase, the congressional panel said, "U.S. interest rates could be driven up by as much as half a percentage point in 1991, and a full point in 1992 through 1995."

## TRANSPORTATION

### Era Of Interstate Highway Construction Nears End

Congress will act this year on highway-construction legislation that will provide for completion of the interstate-highway program launched 35 years ago.

The network will total 44,629 miles when remaining, isolated segments are completed over the next few years.

While completion of the system remains a national goal, controversy could erupt over funding for legislation that also covers repair of the federal system and federal support for primary, secondary, and urban roads and mass transit.

The financial picture is complicated by Congress' decision to cap highway spending at \$16 billion a year through 1993 as part of the 1990-91 budget package to reduce the federal deficit.

The Highway Users Federation, representing a wide range of industry groups in the transportation area, is urging adoption of a five-year plan providing for nearly \$23 billion a year.

The federation notes that the budget cap allows higher spending levels if funding is guaranteed and that the Highway Trust Fund, financed by user taxes, has a hefty balance.

Congressional consideration of highway legislation is awaiting the announcement of the administration proposals.



## ENTREPRENEUR'S NOTEBOOK

# A Strategy With Vision

By Ken Einiger

**E**ntrepreneurs seem to grow from a combination of job dissatisfaction and willingness to take advantage of happenstance.

Back in 1981, when I was 21, I had a job that paid \$250 a week. The pay was all right, but I found I wasn't happy with what I was doing.

I had studied marketing in community college, and I went to work for Florida Power & Light after graduation. It was a good company with good benefits. I started out as a bill deliverer, putting bills in plastic bags on customers' doors. Then I was promoted—first to meter reader and then to collections.

But at that point I was dissatisfied. I had problems dealing with families that were having financial troubles and weren't paying their bills for electricity.

I had told friends in my bowling league that I was not happy with the work I was doing. A fellow in the league came up to me and asked if I'd like a job making \$700 to \$1,000 a week. My first reaction was that he was talking about something illegal. But he explained that I could make that kind of money by working for the company he owned, repairing windshields for car dealers and rental-car companies on their own lots. All I had to do, he said, is fill cracks and holes and buff up scarred places without removing or replacing the windshield.

I told him I liked FP&L's benefits. He said: "Benefits don't put food on the table or give you the better things in life. If you make the money, you can buy the benefits." It made sense to me: Benefits are good, but they are not a reason to work.

So I decided to give the business a try. During my two-week vacation from FP&L, I worked for his firm and made \$1,800 doing windshield repairs for rental-car agencies, insurance companies, and car dealerships. After the vacation, I gave Florida Power & Light two weeks' notice.

Working full time for the windshield-repair company, I was doing well. I made an average of \$900 a week in 1981. But the company began to have cash-flow problems, and sometimes my paycheck would bounce. When I complained, I was told that the firm was having financial difficulties, and if I couldn't handle having some of my paychecks bounce, I should go back to work for Florida Power & Light.

At that point I began to think there was no reason why I

shouldn't go into business for myself. But rather than run a repair crew, I decided to make the materials, train others to do the work, and let them set up their own operations.

So in 1982 I started my own company, The Glass Mechanix, Inc., in a two-bedroom condominium. I offered a kit for starting a windshield-repair business. Each kit contained the tools, hardware, and resin for doing repairs, plus instruction and marketing materials and a video on the whole process.

At the beginning, I repaired windshields during the day on my own—I was still contacting car dealers and rental agencies—while my girlfriend answered calls to our 800 number

from potential buyers of the kit. I returned these calls in the evening, and we started selling.

As the business slowly grew, I worked with chemists to improve the resins and machinery. It took me about two years to put the kit together the way I liked it.

Now we advertise in about 21 national publications that specialize in entrepreneurial and added-income opportunities. We have more than 4,000 customers—those who have bought the kit and now buy materials from us. One customer, in fact, is the fellow who first hired me to do repairs. We also have customers in other countries, in-

cluding Spain, Ireland, and Mexico. In 1990, my company grossed about \$500,000, and five people work for me.

If our advertising generates a number of inquiries in a particular town, we go there and give a seminar about all aspects of the business. We're not selling franchises; there are no royalties or licensing fees. We charge \$4,500 for the training, the machines, and materials for 500 windshield repairs, and we give a lifetime warranty on the equipment. After that, we make our money by selling the materials. Down the road, I'd like to offer customers a package in which they would come to our headquarters to share their ideas with one another.

A repair takes about 15 minutes, and the average charge is \$35. The technician pays about 50 cents for materials. Most of our customers make \$200 to \$300 a day for themselves. I tell them, though, that windshield repairing is a business opportunity, and you're not going to set the world on fire. Some days, if the weather's bad, you make nothing. But don't give up.

In some ways, starting a company was a gamble. On the other hand, a lot of people gamble in other ways, throwing their money away without a return. If you're going to sit at home and wait for a business to happen, it won't. If you go out and work and chase what you want, you'll get what you want.

At my age, I had nothing to lose, and I didn't want to end up with regrets because I had not tried. In the end, I'd rather be able to say that at least I tried to start a business than have to say I had never tried at all.



PHOTO: LACEY HARRIS

Windshield-repair specialist Ken Einiger.

Ken Einiger is president of The Glass Mechanix, Inc., in Sunrise, Fla.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to *Entrepreneur's Notebook*. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.



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# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*



PHOTO: T. MICHAEL REZA



**David Mathews** inspects the work of one of the more than 50 blacksmiths employed by his Stone County Ironworks in Arkansas, handcrafting objects like the candle holder at left.



## How A "Hippie In The Woods" Became The Iron Man Of The Ozark Mountains

**D**avid Mathews moved from Alabama to Stone County, in the mountains of north central Arkansas, in 1973. He was 19. He and his pregnant wife bought 40 acres of wooded land off a map, for \$111 an acre. They spent \$60 more for a chain saw and \$175 for a 1960 pickup truck.

"I came here wanting to be a farmer," he recalls. "I wanted to grow cabbages and sell them to the local markets. My big thing at that time was to show that you can have a wholesome life without a lot of money. It's a bit of a conflict with who I am now, I guess, but I hope not too much."

What Mathews is now, at the age of 37, is one of the two or three biggest employers in little Stone County (1990 population: 9,749). More than 100 people work for his company, Ozark Mountain Enterprises. Under the name Stone County Ironworks, it produces hand-made iron furniture, fireplace accessories, and other pieces that are sold by such stylish retail stores as Bloomingdale's and Neiman-Marcus.

Stone County Ironworks is a blacksmith's dream come true, but, as Mathews says, he had different dreams when he first moved to Stone County. He re-

fers to his youthful self as "a long-haired hippie in the woods. For a while, people thought I was a drug dealer."

Rural, isolated Stone County fit his requirements because "these people were friendly, they were accepting, and they were still doing what I hoped to do. You could go into a hardware store and buy a well bucket."

He and his wife—they have since divorced—lived very frugally at first, doing without running water and electricity, but finally, he says, "I had to make a living." In 1975 he took a job mowing grass and cleaning rest rooms at the Ozark Folk Center, a state park in Mountain View that showcases the crafts and culture of the Ozarks. The people running the center noticed, Mathews says, that "I had an interest in folklore," so in 1976, when someone quit in the blacksmith shop, "they threw that at me."

Mathews took easily to the job. "I'm a real physical guy," he says. "I like hard physical work. I like to shovel, I like to hoe." But what really attracted him to forging "was the magic of being able to heat a piece of iron red-hot and manipulate it and make it into anything you wanted." An older man at the center

taught him how to make a few things, and he also learned from books, but mostly he learned by doing the work.

The center employed Mathews as an independent contractor and paid him very little, he says, "so I still had the potential of starving to death." To generate income, he made products for sale at the center's craft shop—triangular dinner bells, fireplace pokers, and so on.

In 1979, he left the Folk Center and started his own shop in an abandoned gas station outside Mountain View, and by 1981 he had hired one or two other blacksmiths and a part-time secretary. Every weekend, he drove to craft shows in cities like Dallas and Baton Rouge, La., offering his ironwork for sale directly to consumers. Then he quit selling retail and began exhibiting only at wholesale trade shows.

From there the curve has been steadily up, until last year Stone County Ironworks had sales approaching \$3 million. It is most likely the largest blacksmith shop in the country—large enough, Mathews says, to be "consistent and reliable," and thus appealing to retailers in a way that smaller shops cannot match.

Likewise, Mathews produces ironwork that is not as costly as the "sculpture" some smiths turn out, and yet it is far more elegant and attractive than ironwork of the stamped-out, mass-produced variety. "We're kind of staying in the middle," Mathews says. "Every-



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## MAKING IT

thing we make is functional, yet it still makes an art statement."

Forging is hot, hard, noisy work that does not draw delicate types. The 50-odd smiths work in clusters around propane-fed furnaces, each with his own power hammer, hand hammer, anvil, and vise; they heat iron rods and pound and twist them into the desired shapes. Even with only a few of the power hammers pounding away in the 15,000-square-foot steel building where the forging is done, the din can be ferocious. The pool of potential employees thus tends to be dominated by high-spirited young men.

"Blacksmithing requires a lot of energy, a red-blooded gung-ho kind of a drive in people," Mathews says. "The people here work hard, they live hard—we all heat with firewood, we all fix our own trucks—and that spirit is necessary

in blacksmith work." He says that every year "I have a bigger family of real quality employees," but putting that family together has not been easy. He thinks that the community might esteem him more highly if he had been hiring more genteel workers.

The headaches that come with assembling a work force are a classic growing pain, though, and Stone County Ironworks has been experiencing others. "This place almost got away from us," Mathews says, because production costs were rising faster than production, "but we figured out a way to pull it back in. Now I think we're poised to be a much bigger company." He has even gone back into retail sales, on a small scale, by opening a store on Mountain View's picturesque courthouse square.

Late last year, Mathews hired someone to replace him as president and chief

executive officer—his own title is now chairman—and he hopes that the change will give him more time at the forge. He has always designed most of the company's products, and he still has what he calls a "personal studio, where I go to do prototypes. I'm not real good on paper; I have to go out there and get my hands dirty." But even if he becomes more active as a smith, his role in the company can never be what it was.

"It's been a struggle for me," Mathews says, "because always in the old days, I felt that the way to keep respect on the floor was to work out there with them, and to make sure that when I asked somebody to do something, I wasn't too proud to do it myself. But I've had to forget about that, because I can only work 80 hours a week before I burn out."

—Michael Barrier

## Giving California's Termites A Taste Of The Frozen North

The newspaper ad is arresting. It shows a shivering cartoon termite under this headline: "We freeze their little buns off." A radio commercial elaborates: "Actually, it's their whole body that freezes, but for some unknown reason, their buns go first."

Behind the cheeky ads is a serious business: a Long Beach, Calif., pest-control company that grew tenfold, from \$70,000 to \$700,000 in monthly sales, in three years, on the strength of its novel termite-control methods. The Blizzard System kills drywood termites by freezing them with liquid nitrogen. Says Jay Tallon, 32, the president of Tallon Termite and Pest Control: "We saw the need for an alternative. The public was ready."

Tallon's father, Joe Tallon, started the company 28 years ago, as a termite-control firm using conventional pesticides. When he was 11, Jay Tallon started riding on his father's truck. Back then, Jay recalls, customers wanted to smell the pesticides—"so they knew you were there"—but by the time he took over, seven years ago, attitudes had changed.

Joe Tallon Jr., who lives in Bakersfield and does research and development for the company, came up with the Blizzard System in 1984. The concept was simple: Drywood termites cannot survive in cold climates; so to get rid of

termites in a mild climate like California's, bring the cold to them by pumping liquid nitrogen into the wall, chilling the affected wood to minus 20 degrees Fahrenheit and killing the termites. The ni-



Jay Tallon's company uses liquid nitrogen to freeze termites.

trogen evaporates harmlessly.

The Tallons were not able to use their system until late 1987, after surmounting the formidable obstacles that federal and California authorities put in the way of new pesticides, and the system has not lacked critics since it won govern-

ment sanction. The most serious objection is that Blizzard can kill termites only in small areas; it's not a practical treatment for serious infestations.

Jay Tallon acknowledges that "tenting" and fumigating must be done when termites have overrun a house, but he says that doesn't diminish Blizzard's utility in most situations. "We go to the termites where they are," he says.

"They're not going to be in a wall without showing up."

With environmental consciousness supposedly on the rise, Tallon says that the time may be ripe for a pest-control company like his—which does not use any conventional pesticides—to make a splash nationally. He speaks of expanding across the Sun Belt soon.

Indeed, as Tallon describes his career, he has always been chafing at the bit to run something bigger. "All I wanted to do, since I was really young, was to take over the business," he says. He got his own route truck as soon as he had a driver's license, and he went to work full time straight out of high school.

Joe Tallon retired to his native Montana seven years ago rather than risk losing Jay. "He started to see me lose a little bit of interest," Jay says, "and he decided it was time for me to take over." Joe Tallon remains the titular head of the company, and Jay and his father talk frequently on the phone. What does the senior Tallon think of the company now? "He says," Jay replies, "he's glad it's me and not him."

—Michael Barrier



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# Finding The Right Workers

By Joan C. Szabo



PHOTO: L. MICHAEL KEENE

**T**homas Sheets never expected to have trouble finding entry-level workers for his sawmill business. But the company's need for people became so acute that he finally began hiring migrant workers without sawmill experience.

Migrant workers, mainly from Mexico, now make up about 25 percent of the company's 70-member work force. Sheets says these workers have a good attitude about working. They are motivated, dependable, and conscientious, he says. "They are hungry for work."

Sheets and his two partners own and operate Blue Ridge Lumber in Fishersville, Va. Nestled in the picturesque

**Coping with labor shortages:** Blue Ridge Lumber's John Root, Thomas Sheets, and Bob Root.

Shenandoah Valley, the company harvests timber and processes hardwood into lumber.

Sheets says the traditional ways of finding employees—advertising in the local newspaper and contacting the local unemployment office and area high schools—were producing few of the right workers. Since the company began hiring migrants several years ago, its employee turnover rate has improved significantly. For 1989, Blue Ridge

mailed out 112 W-2 income statements for an average work force of about 70. The year before it sent out far more W-2s—about 150—for a smaller work force of only 50.

Blue Ridge also is purchasing more machinery to help overcome its labor deficit. After recently opening a new band-saw mill, the company bought a \$100,000 lumber stacker that mechanically stacks lumber for drying. Sheets says it eliminates the need for about 10 new workers.

Blue Ridge's difficulties are becoming more and more typical among the country's small-business owners as a nationwide shortage of labor, both skilled and



*The worsening shortage of both skilled and unskilled labor is affecting small firms—particularly those that require employees to be well trained and versatile. Here are some steps you can take to find and keep the right workers in the 1990s.*



PHOTO: G. CRAIG SWISAT—SAMMA LARSON

unskilled, begins to take hold.

More than half of the readers who responded to a survey in the November *Nation's Business* said they expect the supply of skilled labor for their needs over the next five years to be "inadequate." More than one-fifth said they consistently experience difficulties in finding qualified workers for the jobs they must fill.

The growing shortfall in the country's labor supply is confirmed by the findings of two other surveys, one by a New Jersey law firm and the other by the Towers Perrin consulting firm and the Hudson Institute.

Towers Perrin, a New York-based

**Judy Whatley's roofing firm could triple its business if she could find additional experienced workers.**

management consulting firm, and the Hudson Institute, a public-policy research center in Indianapolis, surveyed a cross section of 645 U.S. businesses and agencies. Of those responding, 65 percent said their senior managers are concerned about impending shortfalls in the labor pool.

In addition, all respondents reported some current difficulties recruiting in every employee category, which includes secretarial, skilled-crafts, techni-

cal, and professional workers. (See the chart on Page 20.)

When those responding looked ahead five years, their concerns about worker scarcity increased for all employee categories. The percentage of respondents expecting great difficulty in recruiting in the mid-1990s at least doubled in each category.

"One of the key changes managers now must deal with is that the labor market is no longer a buyer's market. It is a seller's market," Towers Perrin's president, John Lynch, told the U.S. Senate Task Force on Workforce and Workplace Readiness last July. "Respondents to our survey see the seller's



## COVER STORY

## From The Dole To The Payroll

Helen Conyers no longer hires college graduates. She prefers welfare recipients.

Conyers, who runs the book billing department of Plenum Publishing Co., a small book publisher in New York, says college graduates usually left after six months. She wanted workers who would stay and advance. In two years, Plenum hired 12 employees who were on public assistance. "They are willing to learn," Conyers says. "Everyone comes at 8:30, even though our day starts at 9."

These employees came to Conyers from a specialized employment agency, America Works. This private, profit-making company recruits welfare recipients, trains them in office procedures and comportment, and places them in entry-level private-sector jobs, such as office workers, food-service handlers, and salespersons.

Currently America Works operates in New York and Connecticut only, but it hopes to expand. It will soon meet with 200 Illinois business people who expressed interest in the firm.

About two-thirds of the companies that use America Works have 200 or fewer employees. America Works' chief operating officer, Lee Bowes, says her agency is one way for these businesses to get quality employees and save money.

In New York and Connecticut, Bowes says, 65 percent of those placed are hired after a trial period, and 90 percent of those are still on the job a year later. Since America Works began in Hartford in 1985, each year it has successfully placed about 250 welfare recipients in jobs in the two states.

Willette Parker has been at Plenum since July 1989. She had been on public assistance for a year when she saw the agency's newspaper advertisement. Parker, 22, had never had a job, used drugs, and supported a 4-year-old daughter. She says America Works taught her about responsibilities, job interviews, and self-esteem. After over a year in Plenum's customer service department, she says, "I'd like to stay."

The key to the company's success, says Bowes, is the support America Works gives to the companies it serves and the people it places.

Arline Kaplan, director of customer communication at New York City's

Brownstone Studio, a mail-order clothing company, says America Works takes everyone's needs into consideration. In the past two years, her company has hired about a dozen employees from America Works. When she needed help with one employee's perpetual tardi-

acceptance is "guaranteeing performance." A state pays America Works only when its applicants are hired.

The companies themselves pay no salary or benefits to the employees until their fifth month on the job. During the first four months, America Works operates like a temporary agency. Companies pay approximately \$6 an hour to America Works, which pays FICA, workers' compensation, medical and fringe benefits, as well as minimum wage to the employees. At the same time, the employees continue receiving adjusted public assistance.

After the four-month trial period, companies may choose to hire the employees outright. Those companies that do so get a federal tax credit of up to \$4,000 against wages for hiring a welfare recipient. Those that don't may try for another employee through America Works. In either case, they owe nothing to the agency.

New York typically pays welfare recipients \$15,000 a year, but if one is hired and taken off the welfare rolls, the state pays America Works only \$5,000. If after the trial period, a company does not hire the worker, the state does not pay.

New York is "quite pleased with the level of performance and capacity to move such a large number of public-assistance recipients into the private sector," says Oscar Best, the deputy commissioner for income maintenance in the state's Department of Social Services. Best says there are "few programs where things run so smoothly." America Works saves the state money, so New York is committed to it, Best says. But New York is unable to support the program at the level it would like because of limited funding, even though it is cheaper than keeping a would-be employee on welfare. The state is looking for financing to continue its contract with America Works.

Limited funds are also hampering expansion of the program in Connecticut.

Marian Flamm, vice president of AAA American Flag Co. in New York, hopes funds can be found. She hired two people from America Works for her six-person family business. She says America Works' applicants were "better than the people I found on my own."

—Janet L. Willen



PHOTO: CALAN DORRIS

Helen Conyers (in red) finds workers like Willette Parker eager to learn.

ness, an America Works representative stepped in to resolve the problem.

Bowes says only one-third of the people they place experience problems that require America Works' help. The difficulties range from problems with child care to abusive relations to low self-esteem. She says the support they give "makes companies like us and appreciate us, and makes turnover less."

Kaplan agrees. "These folks are in it for the long haul," she says. "They care about people."

Edward Sadowsky, of the New York law firm Tenzer, Greenblatt, Fallon & Kaplan, which is counsel to America Works and employs two of its graduates, says there is a perception that welfare recipients are "lazy people, badly motivated." He says that isn't true. "Most people just want to join the mainstream."

America Works' president, Abe Levovitz, says the key to winning business



market in several different ways. From a sheer quantitative standpoint, they see a dwindling supply, with 65 percent saying that they already experience labor shortages. But it is also a seller's market from a qualitative standpoint. There are not enough workers with the skills employers need—from specialized skills, to basic verbal skills, to simple work-habit skills."

In another recent survey of 1,000 employers, almost 75 percent reported having difficulty finding qualified workers; in fact, all respondents in the hotel and lodging industry and all hospital employers reported shortages. The survey was conducted by Grotta, Glassman & Hoffman, a Roseland, N.J., law firm that specializes in labor and employment law on behalf of management. "Notwithstanding the slower economic situation in various areas of the country, companies continue to have a problem finding qualified workers," says Joan Foster, a partner in the firm.

The current recession already has pushed the unemployment rate to a three-year high of 6.1 percent in December. Economic analysts say joblessness could go higher as more companies lay off workers to cope with a slowdown in demand for goods and services.

Small-business people also complain that many of today's young, entry-level workers are not prepared for the workplace. Many such workers, according to employers, have high absentee rates, fail to perform quality work, and lack a cooperative work attitude.

What is behind our growing labor difficulties? Experts cite some reasons:

- The pool of available labor is growing more slowly as fewer young people enter the job market. The Bureau of Labor Statistics, which says the slowdown reflects the decline of births in the 1970s, predicts that from 1988 to 2000 the labor force will grow by only 16 percent, compared with a growth rate of 26.5 percent from 1976 to 1988. This trend is especially troublesome for small businesses that generally hire younger, less experienced workers.

- The quality of U.S. education has declined significantly, in turn producing a growing skills deficit among U.S. workers. The Conference Board, a non-



PHOTO © STEVE JOHNSON

**Personnel-service owner Terry Neese, left, with client Joann Pace.**

profit business-information organization, reported that nearly 20 percent of companies surveyed recently were having difficulties finding applicants who can read well enough to qualify for entry-level jobs.

- There is a growing mismatch between the skills needed in the workplace and the skills workers possess. "Three-fourths of new work-force entrants will be qualified for only 40 percent of the new jobs created between 1985 and 2000," says Marvin J. Cetron, president of Forecasting International, Ltd., in Arlington, Va.

The U.S. Chamber of Commerce has undertaken a major initiative to help business deal with problems stemming from poorly educated and trained workers. It has established the Center for Work Force Preparation and Quality Education to help reform and reshape the U.S. educational system.

Robert Martin, vice president and executive director of the center, says that

the skills gap and the need for qualified workers is a problem that is no longer confined to large companies. "It is a nationwide business-community problem, and one that is especially acute for small firms which require entry-level workers who are able to perform even more tasks than those workers who join large firms," he says.

The center is pushing for education reform at the state and local levels by working through state and local chambers of commerce.

Unfortunately for U.S. business, the education deficit is taking place at a time when skills requirements for most jobs are increasing and at a time when the U.S. has fallen behind many of its competitors.

Compounding the problem is the growing diversity of the work force, which will create challenges for employers in the 1990s. Seventy-five percent of new workers will be women and minorities with varied cultural backgrounds. Managing such a work force will require new and creative approaches to ensure employee retention and greater productivity.

There also will be greater demands for expanded employee benefits in the child-care and elder-care areas as the number of working parents with children increases and the elderly population lives longer. In addition, more employees will want flexible work scheduling, including flextime, job sharing, and telecommuting so that working parents can spend more time with children at home.

Although the current recession and its rising unemployment rate may temporarily mask some of the problems associated with these labor difficulties, "today's economic conditions don't change the basic demographic or skill-level equations for people who are available for work," says Kevin R. Hopkins, an adjunct senior fellow at the Hudson Institute. He also is a co-author of a new book, *Help Wanted: How Companies Can Survive And Thrive In The Coming Worker Shortage*.

"Once we return to a full-strength economy," Hopkins says, "the worker shortage is going to be just where it was if we hadn't had the recession. That is not going to change. Business people who get deluded by the recession are



## COVER STORY

going to be worse off than they would have been."

In fact, the worker shortage is likely to persist. In a study commissioned by the city of Fort Wayne, Ind., David Reid of the Hudson Institute writes: "Relatively tight labor markets are expected to exist through the country over the foreseeable future. The problem will be better in some areas than in others, but we do not expect to see sustained periods of labor surplus anywhere."

Although most business owners are aware of the enormous workplace sea change that is under way, few have done much to prepare for it. The Hudson-Towers Perrin survey found that most companies responding have yet to introduce new programs that will address these dramatic changes.

Inaction can be perilous, however. Experts say that a company's survival will depend on how well it handles the challenges brought about by the labor shortage, the skills gap, and the demographic changes in the work force of the 1990s.

"We have seen during the first six months of 1990 a real slowdown in small-business growth, and it is related to the shortage of qualified workers," says David Birch, president of Cognetics, Inc., a Cambridge, Mass., firm specializing in small-business data analysis.

As the labor market tightens, large corporations become more aggressive about hiring, so there is a contraction of the pool from which small firms can draw workers, Birch says. As a result, a small-business owner is left with three options: substitute machines for people, shrink the business, or decide not to grow.

The tremendous drop in the growth of employment in the first half of 1990 among small firms, says Birch, indicates that many firms may have decided to become smaller or forgo expansion. "Everyone will slow down," he says, "but I think small firms will slow down relatively more because they won't be able to compete for the labor market."

Small-business owners Judy and Alvin Whatley say the shortage of qualified workers has affected their company's ability to grow. The Whatleys own Interstate Roofing and Sheet Metal, in Coeur d'Alene, Idaho. The firm does

### Job Categories Experiencing Labor Shortages Today

Percent Of Companies Reporting Difficulty Recruiting Now

	Some Difficulty	Great Difficulty
Secretarial/Clerical	39 %	9 %
Skilled Crafts	35	9
Technical	51	13
Professional	50	11
Sales	29	3
Administrative	31	2
Supervisory/Management	45	3

### Job Categories Where Labor Shortages Are Expected In Five Years

Percent Of Companies Expecting Difficulty In Future Recruiting

	Some Difficulty	Great Difficulty
Secretarial/Clerical	32 %	21 %
Skilled Crafts	28	18
Technical	36	27
Professional	41	22
Sales	27	8
Administrative	35	6
Supervisory/Management	42	11

Source: Workforce 2000 / Competing in A Seller's Market: Is Corporate America Prepared? A 1990 report from the Hudson Institute and Towers Perrin.

roofing and sheet-metal work for commercial customers in northern Idaho, eastern Washington, and western Montana. The company runs employment ads in the local newspaper, uses the local state-funded job service to recruit workers, and generally tries to spread the word that the firm is seeking experienced workers, but these efforts are mainly unsuccessful.

To keep their firm staffed, the Whatleys hire inexperienced individuals who appear willing to learn the specialized roofing skills that Interstate needs. But this approach is not very successful. Over the past two years they have hired about 30 employees, and only seven of those hired in that period remain with the company. Most of those who left decided that the work was too difficult, says Judy Whatley. In the other cases, workers were let go because they weren't willing to learn the work or to put forth the necessary effort.

Whatley also says she can't find individuals with "good work habits." Workers often fail to call in if they can't come to work on a given day, or they simply quit without giving notice.

Interstate could triple its sales volume, says Whatley, but the shortage of workers is standing in the way of growth. "It is more important for us to do quality work and maintain our reputation," she says. "We can't do that without experienced people."

Terry Neese of Terry Neese Personnel Services, in Oklahoma City, Okla., also has difficulty finding qualified workers for business clients. She owns and operates two placement services, one for permanent positions and the other for temporary jobs. Neese also is serving now as president of the National Association of Women Business Owners, which represents about 6 million women-owned businesses.

The shortages she is encountering are particularly severe in the clerical field. "Companies have become so specialized and want people that are trained on specific computers and word-processing packages. The upshot is that qualified people who can fill these requirements are just not out there," she says. If the agency cannot find the exact type of employee for a company, Neese adds, "we

find the closest possible one, and the company puts forth some extra dollars to do training."

Locating qualified workers also is a challenge for the multicolor commercial printing firm of Colahan-Saunders Corp., in New York City. Peter F. Burke, vice president of the firm, says, "We always are startled by the lack of response to our ads for workers, or by the response from people who are woefully underqualified."

Burke says the company employs clerical people, sales and production staffers, and skilled workers for the printing plant. When Colahan-Saunders does find the right workers, Burke adds, "we go out of our way to create opportunities for them. We give people a shot at moving up within our organization and assuming greater responsibility."

In recruiting workers, the company continues to use traditional methods, Burke says. "We haven't tried anything innovative, but maybe we should."

Innovative approaches to hiring and retaining employees will be essential for businesses in the 1990s, experts say. For example, citing his company's efforts to



be innovative, David Birch says: "Each employee owns a piece of Cognetics. And I still am having trouble recruiting. I still have to pay higher-than-average salaries. I have to offer all kinds of benefits and stock options. I think it is successful, but it is well beyond simply hiring people."

Small closely held firms not aiming for significant growth and not wishing to offer employees any ownership of the company are in a different position, says Birch. They still need qualified workers, and to find such individuals, he says, "they must start looking at the handicapped, minority groups, women, and part-time people a lot more than they have in the past. They will have to accommodate and be more tolerant of the less-mainstream corporate American work force."

All firms will have to find ways to increase their current workers' productivity. With the shrinking of the labor force, higher productivity will be possible only by boosting product quality and output per worker, says a new report, *America's Choice: High Skills or Low Wages*, prepared by the National Center on Education and the Economy's Commission on the Skills of the American Workforce. The Rochester, N.Y., center is a nonprofit organization created to develop proposals for improving U.S. education and training.

This can be accomplished, according to the report, only by turning companies in every economic sector into "high-performance work organizations" that pay higher wages and invest heavily in worker training and retraining.

Automation also offers some possible solutions for labor shortages. Birch recently doubled his sales without adding anyone to his staff, he says. "We just bought a lot of equipment."

As companies look more to machines to deal with labor shortfalls, they must take time to analyze carefully their employment needs, says David Herold, a professor of management at the Georgia Institute of Technology, in Atlanta. For example, they should avoid automating those jobs for which they have a plentiful labor supply, he says. "If we only have a finite amount of technology dollars, we ought to consider allocating them based on some opportunities for



PHOTO: GUY WOODS/BLACK STAR

**Colahan-Saunders' Peter Burke with first pressman James Dellaratta.**

automating jobs that we know are going to be adversely affected by future labor shortages."

Technology can multiply skills in short supply, Herold notes. When a qualified worker is paired with a new piece of equipment, that individual may be able to accomplish as much work as eight employees used to do, he says. Even so, a company still must find qualified workers to operate those machines.

Small-business owners don't have to feel helpless in the face of the labor shortfall. There are various steps you can take to find and keep the right workers in the 1990s. The best methods will depend on your own business objectives and the resources you have at your disposal. Here are a number of approaches for dealing with the problem:

**Advertise for workers in areas where plants may be closing.** The purpose, says law-firm partner Joan Foster, is to target more specifically those areas

where there are people who may be qualified but out of work.

**Improve the recruiting process.** "Recruiting is not up to snuff," says Joseph Gibbons of Towers Perrin. "Putting a 'Help Wanted' sign on the plant gate is not going to work any more." Employers will have to spend more time on the recruiting process so they can be confident they have hired the right individuals. To reduce training costs and minimize turnover, small-business owners must be more careful in screening and matching employees to job requirements.

**Hire more minorities and women.** If employers want a larger pool of workers from which to select, they will have to look more to women and minorities. The Hudson Institute's Kevin Hopkins, along with his co-authors, Susan Nestleroth and Clint Bolick, says employers should consider women who have temporarily dropped out of the work force to raise children or to accommodate a husband's career. They can be a valuable source

of new workers for companies, particularly those that help such women make the transition back to part-time or full-time employment.

**Hire or retain older workers.** Small-business owners will have to provide incentives to keep older workers interested in staying employed and updating their skills, says Stephen F. Guinn, an organizational psychologist and director of executive development for PSP: Human Resource Development, a human-resources consulting firm in Pittsburgh.

**Develop work environments that attract and retain good employees.** Says Guinn: "It will be necessary for companies to sell themselves to prospective employees. A growing number of candidates will want to know what you have to offer them and how you are going to meet their ambitions and their needs."

**Hire disabled workers.** Business people who hire the disabled not only gain quality workers but also receive a federal tax benefit. Many nonprofit agencies throughout the U.S. train the

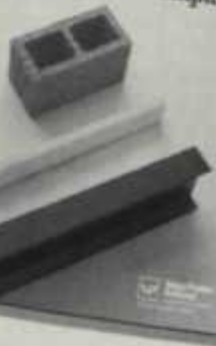


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disabled and provide free job-placement services for companies. Using such organizations "reduces the cost of recruitment," says Joel M. Levy, executive director of the Young Adult Institute, in New York City. Levy's nonprofit organization, which helps place the disabled, sends a coach to the job with the disabled person for a time to help provide any required extra training.

**Take steps to manage diversity in the work force.** Employers will have to address their workers' differences in age, language, cultural background, and skills. Hopkins and his co-authors say the better that workers mesh within an organization, the more productive the organization will be.

Small-business owners should be keenly aware of cross-cultural problems and should have strategies for building team effectiveness, says Anna Duran, faculty director of Columbia University's Managing Cultural Diversity Executive Program. Try to see the other person's perspective on a work situation. "Be flexible enough to move from your value orientation whenever appropriate to reduce tension," she says. "This will encourage others to explore alternative ways of doing things and create cultural reciprocity in the workplace."

**Make commitments to education, training, and retraining.** It may be necessary to approach potential workers while they are still in school. "In the future, we may see not only college students but also high-school students targeted by companies early on and offered educational benefits, skills training, and job-enrichment programs if they 'sign up now,'" says Guinn.

**Be flexible in dealing with your employees.** Try to accommodate more part-time and job-sharing workers and provide some assistance with child care. While many small companies cannot afford to offer a financial allowance for child care, they often can be flexible about work schedules. "If you have motivated employees and work to help them in terms of child care or whatever flexibility they may need, you will find they in turn will work harder and more effectively on the job," says Guinn.

**A**bove all, small-business owners should begin now to invest in their employees, using creative efforts to attract and retain them. Those who heed the warning, says Guinn, "will avoid the last-minute scramble and be at a competitive advantage in the marketplace of the 1990s."



To order reprints of this article, see Page 69.

## Labor Availability Survey Results

A survey of *Nation's Business* readers indicates that most companies find the supply of skilled labor for their employment needs to be inadequate. Other major findings: Nearly one quarter of those who responded said they are currently experiencing difficulty in finding qualified workers for the jobs they must fill. Even so, 50 percent say they spend less than \$5,000 a year to train their workers.

### 1. How would you describe the supply of skilled labor for your employment needs over the next five years?

- 3.8% Abundant
- 7.8% Above average
- 33.2% Adequate
- 55.2% Inadequate

### 2. How often are you experiencing difficulty in finding qualified workers for the jobs you must fill?

- 21.5% All the time
- 24.8% 75 percent of the time
- 24.2% 50 percent of the time
- 19.8% 25 percent of the time
- 9.7% Never

### 3. In hiring, how often do you find workers who already have the skills you need?

- 5.0% All the time
- 14.2% 75 percent of the time
- 29.6% 50 percent of the time
- 43.2% 25 percent of the time
- 8.0% Never

### 4. What are your total annual costs for training workers to do the jobs for which they are hired?

- 8.6% Nothing
- 44.5% Under \$5,000
- 21.1% \$5,000 to \$7,000
- 9.0% \$7,000 to \$10,000
- 16.8% Over \$10,000

### 5. What percentage of your workers would you say have a dedicated and flexible attitude about their work?

- 15.5% 0 to 20 percent
- 18.2% 21 to 40 percent
- 24.8% 41 to 60 percent
- 22.7% 61 to 80 percent
- 18.8% 81 to 100 percent

### 6. How are you handling cultural diversity in your company?

- 22.3% Training supervisors to manage diverse work forces
- 2.8% Providing literacy training
- 6.7% Supplying mentors to assist culturally diverse employees
- 46.6% Doing nothing
- 21.6% Other



## FINANCIAL MANAGEMENT

# Congress Thaws The Estate Freeze

By Joan C. Szabo

**T**ransferring a family business from one generation to the next has become considerably easier thanks to the tax changes contained in the Revenue Reconciliation Act of 1990.

The new law repealed the tax code's controversial Section 2036(c), which made it almost impossible to plan adequately for succession in family-owned firms without incurring substantial taxes.

Section 2036(c) had eliminated the use of the "estate freeze" as an estate-planning technique. The freeze was especially beneficial for family-business owners because it enabled them to minimize estate taxes when transferring a business to their children. The tax cost of such a transfer can be extremely costly, and without the use of the freeze, many owners feared their heirs would have to sell the business to pay estate taxes.

In addition, Section 2036(c) was drafted so broadly that it adversely affected most intrafamily transfers of property. "Under 2036(c), your hands were tied. You could do very little of anything regarding family-business transfers," says Sam Starr, a partner with Coopers & Lybrand's National Tax Service in Washington, D.C. Congress made the repeal retroactive to the date of the provision's enactment on Dec. 17, 1987.

The 1990 law replaces 2036(c) with a gift-tax valuation provision known as Chapter 14. "The change makes it possible to use the estate freeze again, although gift taxes will have to be paid at the time of the freeze, and dividends will have to be paid on the preferred stock retained by parties," says John Carson, a tax attorney for the U.S. Chamber of Commerce.

In the past, an estate freeze allowed family-business owners to pass a business on to their children so that the parents could retain control and collect income during their lifetimes, while the heirs received the benefit of the company's appreciation in value.

This was generally accomplished by recapitalizing the stock of a business,



PHOTO: CLARITY/FLORIAN

**Family firms are taxed more than other businesses, says John Garvey.**

creating a preferred voting stock and a nonvoting common stock. The value of the preferred stock generally equaled the value of the corporation. The value of the common stock was relatively low at the time of the freeze and did not pay dividends. The owner gave or sold the nonvoting common stock to family members and retained current value and control. In this way, the family did not pay estate taxes on any appreciation in the value of the business between the time the common stock was transferred to the heirs and the time the owner died.

Although Congress restored the freeze, it made major modifications in its use. Under the new tax law, the value of the transferred interest is determined by subtracting the value of the retained interest from the total value of the business. In this way, if the retained interest is assigned a low value, the value of the transferred interest will be correspondingly higher, resulting in high gift-tax consequences. In addition, the valuation

*The estate-freeze method of passing a family firm to the next generation has been restored, but with major modifications.*

rules say the retained interest will have no value unless certain requirements are met. One of the most significant requirements is that the family-business owner must receive a qualified payment, such as a dividend payable on a regular basis. Chapter 14 only applies to retained interests where the parents control more than 50 percent of a corporation or partnership.

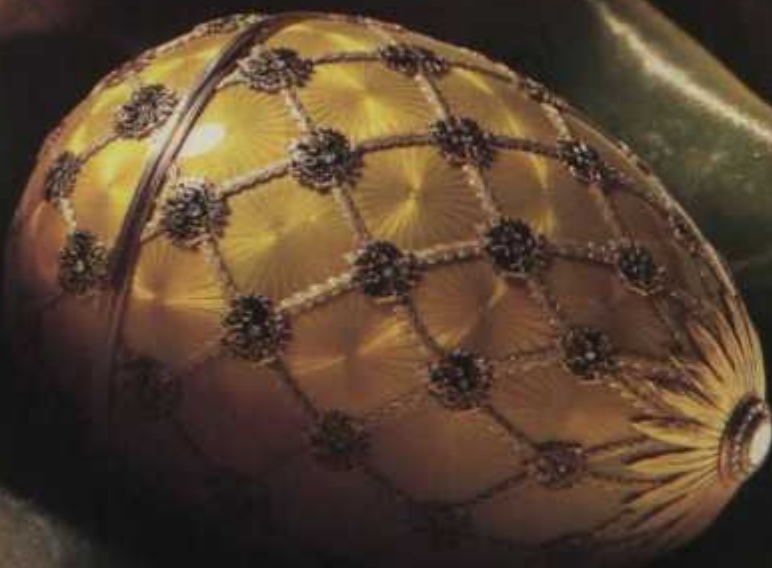
Perhaps the greatest advantage of Chapter 14 is that it is more narrowly drafted than Section 2036(c). "It does not attempt to police as many transactions as 2036(c)," says Carson.

In addition, once the gift-tax hurdle is crossed, the transferred assets will not be brought back into the parents' estate for tax purposes after their death. Under 2036(c), if parents transferred ownership of the future growth of their company to their children and retained minimal ownership or income from the business, all growth in the value of the previously transferred interests could be taxed in the estate.

The new law also addresses buy-sell agreements. Such agreements, which are common in family businesses, allow co-owners to buy out heirs in the event of death or disability. Chapter 14 states that the value of property determined under a buy-sell agreement will be accepted for transfer-tax purposes provided the agreement is a bona fide business arrangement, is not a device to transfer property to members of the decedent's family for less than full and adequate consideration in money or money's worth, and its terms are comparable with similar arrangements entered into by persons in an arm's-length transaction. The first two requirements essentially codify existing regulations governing the transfer-tax treatment of buy-sell agreements; the third has generated concern within the business community. Experts say that unless the IRS interprets it liberally, it could become a difficult test for a family business to meet.

Despite these improvements, accountant Starr says that the new law is not as flexible as the one that preceded Section 2036(c). "There is no question that





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## For Further Information

### Books

Two recent books for family-business members are particularly strong in the areas of management succession and estate and tax planning. They are:

*Your Family Business: A Success Guide for Growth and Survival*, by Benjamin Benson, with Edwin T. Crego and Ronald H. Drucker (Dow Jones-Irwin, \$24.95). This is an overall reference for business owners and their families. It looks at such issues as providing continuity for the business into the next generation, minimizing conflict about the business among family members, organizing your business for growth, attracting and retaining quality employees, planning for a secure retirement, and knowing when to sell your business and how to get the best deal. There are chapters also on succession, financing retirement, and estate planning.

Benson, a family-business consultant for more than 35 years, is in Boynton Beach, Fla. Drucker is a founder of the Philadelphia accounting firm of Drucker

& Scaccetti. Crego is a family-business consultant in Chicago.

*Passing the Torch: Transfer Strategies for Your Family Business*, by Mike Cohn (Tab Books, \$24.95). While Cohn covers some of the same ground as *Your Family Business*, nearly two thirds of his book deals with the technicalities of estate planning and transferring a business. You'll find discussions of such topics as leveraged buy-outs, buy-sell agreements, gifting a business, using an ESOP for business perpetuation, and trust planning. Tables show you how to calculate your needed retirement income, and an example of a buy-out by children is included.

Cohn is the president of the Cohn Financial Group, Inc., in Phoenix, Ariz.

### Tapes

"Making Your Family Business Outlast You" is an audiocassette program created by *Nation's Business* contributing editors John L. Ward and Craig E. Aronoff, with Sharon Nelton, *Nation's Business* special correspondent. Consisting of six cassettes and a companion workbook, the package covers such topics as preparing a succession plan, finding and using good advisers and direc-

tors, and creating a family-business council. To order, send a check for \$99 to *Nation's Business*, Circulation Department, 1615 H Street, N.W., Washington, D.C. 20062, or call (800) 538-4400.

### Seminars

"Getting Out of the Family Business," a daylong seminar at New York University on May 4, will look at financial and emotional issues of exiting a family firm, including planning for life beyond the family business. For information, write or call LaVaun Eustice, Director, Family Enterprise Project, Management Institute, New York University, 48 Cooper Square, Room 108, New York, N.Y. 10003; (212) 998-7218.

"Managing Succession Without Conflict" is a three-day seminar led by nationally known family-business consultant Léon A. Danco. It includes sessions on management and ownership transfer techniques and strategies for management succession. The seminar will be held in Cleveland June 12-14 and Nov. 13-15. For information, contact the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

—Sharon Nelton



## FINANCIAL MANAGEMENT

Chapter 14 is not as good as what we had before 2036(c) was drafted. But now at least we can go back to our clients and talk about intrafamily transactions again."

Nevertheless, the new law has several drawbacks, says Harold E. Abrams, a partner in the Atlanta law firm of Kilpatrick and Cody. Abrams advises many closely held firms on estate planning. One problem he sees is that the family-owned firm would have to pay a dividend to the parents on a market rate. Abrams believes few firms could afford to pay such a dividend on preferred stock, which would eliminate use of the freeze for them.

Chapter 14's greatest shortcoming, say experts, is that the provision does little to minimize the tax cost of a family-business transfer. "Despite some improvements brought about by the new law, family firms still face higher estate and gift taxes than other businesses," says John K. Garvey, executive director of Family Businesses of America, a non-profit educational organization based in Wichita, Kan., and dedicated to the preservation of family businesses.

Family firms are affected most by estate taxes because the full value of a parent's business can be included in the parent's estate when he or she dies. The

*The change [restores] the estate freeze, although gift taxes will have to be paid at the time of the freeze, and dividends will have to be paid on preferred stock retained by parties.*

John Carson  
U.S. Chamber of Commerce

estate tax, among the highest taxes levied on an individual, starts at 37 percent for estates larger than \$600,000, and it can climb to 55 percent. The first \$600,000 of an estate is exempt from the federal estate tax. The top marginal rate is 60 percent, as a result of a 5-percent surtax on estates valued at more than \$10 million.

Carson says family firms that utilize the freeze may end up paying a substantial gift tax. Experts estimate that gift

and estate-tax rates will continue to total about 50 percent. As a result, some family firms may still have to be liquidated for payment of taxes.

While a good deal of headway was made by the business community in getting the message out to Congress that family business is vitally important to the economic health of the country, the battle is far from over.

Carson says that although "repeal of Section 2036(c) made estate planning more rational, it did not address the high estate and gift-tax rates on family firms."

Because of the new law's shortcomings, tax experts say, family-owned firms may have to rely more on the establishment of estate trusts funded with life insurance to guarantee the continuation of their businesses.

Legislative action also is expected to continue. The U.S. Chamber will be reviewing the possibility of seeking legislation that would substantially reduce the estate and gift-tax burden on family-owned businesses. In the end, say experts, such a reduction may be the only way to effectively perpetuate family firms in the United States. ■

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## MARKETING

# Undying Support

By Glen Macnow

**S**uppose you've decided that your company—like many small firms these days—could profit from having a celebrity endorse your product or service.

You'd probably shy away from Madonna, who's a bit too risqué, and Bill Cosby, who's far too expensive. And you'd worry that today's athletic hero might end up tomorrow's tarnished icon.

But what if you could find an all-time legend guaranteed never to disgrace his or her image?

And what if you could hire that legend at a fraction of the going rate for, say, the Michaels—Jordan and Fox?

Perfect, you would say.

And what if the celebrity were dead?

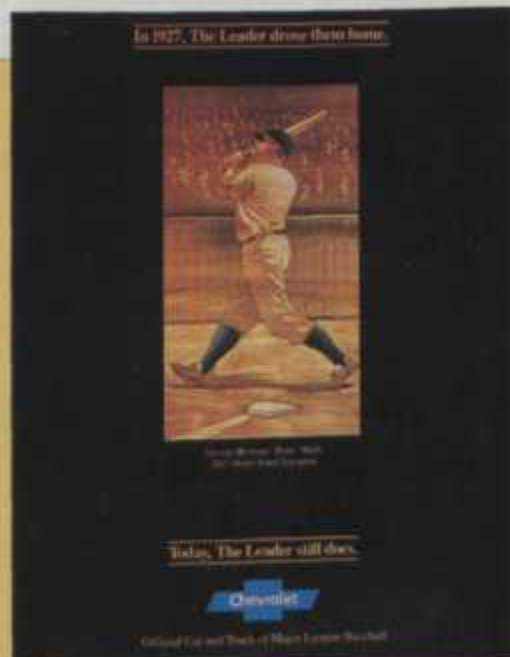
To many advertisers, death is no longer a handicap in the choice of a famous name for their ads.

Indeed, as the prices and the risks of marketing modern superstars continue to rise, more companies are promoting themselves by using late greats.

Long after their passing, sports legends such as Jim Thorpe, Jesse Owens, and Vince Lombardi appear in ads for products they never even dreamed of. Casey Stengel, that virtuoso of malapropism, declares that NEC America's computer system is "amazin'." A photo of Joe Louis' 1938 comeback victory over Max Schmeling is used to promote Chase Bank of Florida's "heavyweight returns on four knockout CDs."

The trend extends beyond sports. Marilyn Monroe and Albert Einstein had little if anything in common during life, but in death they are both superstars of marketing (Monroe pushes wine and cosmetics, and Einstein theorizes on cameras and phone systems). Abbott and Costello's "who's on first" shtick has been reworked to plug everything from bran cereal to mutual funds.

But the true Sultan of Sales is Babe Ruth. Never mind that the Bambino has



AND COURTESY OF CURTIS MANAGEMENT GROUP

**The legendary Babe Ruth—now the Sultan of Sales—has been licensed to nearly 250 companies, from small firms to corporate giants such as Chevrolet.**

been dead for 42 years. His barrel-chested image is licensed to nearly 250 companies, ranging from giants such as IBM, Sears, and Coca-Cola to smaller businesses such as a New York City condominium, a legal-research firm, and a Philadelphia bank.

"Babe Ruth was probably the most colorful and fantastic athlete who ever lived," says Dave Burns, president of Burns Sports Celebrity Services, a Chicago firm that lines up athletes with advertisers. Babe Ruth, says Burns, is "an attention-grabber like no one else, a supersalesman." And even though Ruth was a notorious drinker and womanizer, he adds, "his image is a great one. His legend will never fade."

The United Valley Bank of Philadelphia called on that legend when it used Ruth and teammate Lou Gehrig to promote free checking for senior citizens. Above a photo of the New York Yankee greats is the pitch: "If you're old enough to remember them, you can forget about paying for checking."

"The message was that if these guys were part of your generation, we have a program for you," says Rob Kwornik,

*Want a celebrity to promote your company—an affordable big name who won't get into trouble and smudge your firm's reputation?*

the bank's director of marketing. "So it made sense to use people whom the mature adult would recognize more easily than, say, [current Oakland Athletics teammates] José Canseco and Mark McGwire."

It also made economic sense. The fee for using the Babe ranges from \$500 for one-time, single-market ads to \$100,000 for a multimedia national campaign. If that seems steep, consider that top live stars charge as much as \$300,000 per campaign. When Ruth was alive, his endorsements were limited to an occasional brand of cigar, top hat, or chewing tobacco. As recently as 1984, Ruth's heirs were getting less than \$100 a year for the use of his image. Then they hired an Indianapolis firm, Curtis Management Group, to coordinate licensing of the Babe's name and face.

Curtis has since sued more than a dozen companies for unauthorized use of Ruth's image.

Moreover, Curtis has out-marketed Bart Simpson, signing agreements authorizing Ruth T-shirts, figurines, collector china, bubble gum cards, and teddy bears. This year, Ruth's legacy is expected to earn about \$500,000 for his surviving daughter, his grandchildren, and Babe Ruth Baseball Inc., a nationwide youth league. Royalties could top \$1 million by 1992, says Mark Roesler, president of Curtis Management.

Curtis has carved out a sizable niche as agent to the dead, with its client list doubling in each of the past four years. In addition to more than 50 athletes, it represents the heirs of Fred Astaire, Mark Twain, Humphrey Bogart, and James Dean, among others. In 1988, the Converse athletic-shoe company started using Dean in a magazine ad campaign for its Jack Purcell brand of sneakers after someone in Converse's Boston advertising agency discovered a 1955 photo of the actor wearing the clearly labeled shoes. Sales shot up 50 percent over the next year.

On a smaller scale, a Sherman Oaks, Calif., graphic designer, Rebel Porter, found Dean an attention grabber. Porter

Glen Macnow is a Philadelphia writer specializing in sports-business issues.



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# First In Line At The Cafeteria

By Michael Barrier

*Bob Luby built an industry leader by serving Texans what they like to eat.*

**R**udy Cedillo, the manager of a Luby's cafeteria on the north side of downtown San Antonio, has his eye on the gray-haired man who has just gone behind the counter and started poking at the bread.

"He's probably going to taste something," Cedillo says. "He's probably going to check the temperature of the bread, the freshness of it, to make sure we haven't slipped. He'll always get me on the bread; it's tough to keep it hot." The visitor will put a pat of butter on the bread, Cedillo predicts, "and if it melts, he'll be a happy man."

The man behind the counter is Harold D. Day Jr., an area vice president of Luby's Cafeterias Inc.; he is making an unannounced visit to one of the biggest (more than 500 seats) and busiest units in the chain. Thanks in part to such visits, Luby's is the second-largest, and the most profitable, of U.S. cafeteria chains. In 1990, it earned more than \$32 million, after taxes, on sales of more than \$311 million.

Most of the 143 Luby's stores are in Texas and a few neighboring Southern states. Cafeterias, scarce in most parts of the country, are a Southern institution. They may owe their enduring popularity to the region's drab economic history: Not long ago, it was only in a cafeteria that many Southern families could enjoy the small luxury of eating out without spending more than they could afford.

Visit a Luby's in a shopping mall in San Antonio or Austin—about one-fourth of the chain's stores are in or next to malls—and you will find waiting in line a cross section of the Texas middle class. Spread before them is food that mirrors what they eat at home—or would, if they had the time and the skill to cook it as well as Luby's does. Rare the Southern home that serves mashed potatoes so impeccably lump-free or fried okra so crisp.

In its management, as in its cuisine, Luby's Cafeterias is distinctively Southern; it calls to mind such famous Southern companies as Wal-Mart Stores Inc. Luby's requires of its cafeteria managers intense loyalty and backbreaking labor—a typical manager's workday begins at 7 a.m. and ends at 9:30 p.m.—and promises ample monetary rewards in exchange.

Luby's keeps its promise: Its cafeteria managers earn on average about \$115,000 a year.

Like Wal-Mart, Luby's is the long shadow of its founder—and, like Wal-Mart's Sam Walton, the founder of Luby's has cut back steadily on his active role in the company. Robert M. Luby, now 80, started cutting back 20 years ago, and so effectively has he done so that journalists writing about Luby's

we do today is just modifications of what he did, years ago." He examines a picture of the very first cafeteria: "It's the same damned thing. It's just smaller and less complicated."

The birth date of the present-day Luby's can most plausibly be placed not in 1911, though, but in 1947, when Bob Luby and his cousin Charles R. Johnston opened a cafeteria in San Antonio. The chain really got under way the fol-



PHOTO: BOB CAEMMERICH

The photos behind Bob Luby show cafeterias his father opened.

sometimes overlook him entirely.

Officially, Luby's Cafeterias traces its ancestry to a cafeteria that Harry Luby, Bob Luby's father, opened in 1911 in Springfield, Mo.; but Harry Luby never had any thought of founding a chain. Instead, he worked his way south, opening a cafeteria and then selling it outright (or retaining only part ownership) when he moved on to the next town. In 1927, when he had reached San Antonio, he retired from active involvement in the cafeteria business, at the age of 39, and devoted the rest of his life to managing his investments.

At Luby's corporate headquarters in northern San Antonio, blown-up photos of Harry Luby's early cafeterias cover a wall in the board room. Looking at them, Bob Luby says, "Basically, what

lowing year, when they opened a second San Antonio cafeteria.

The company's official history makes much not just of Harry's limited ambitions but of his affability, and it clearly implies that Bob Luby differed significantly from his father in both respects. "My mother was kind of mean," Luby says, in what may be a joke. "I think I got some of her."

Certainly Bob Luby never flinched at the thought of building a sizable business. He explains why Harry did:

"When he was a young boy, his two favorite sisters and his mother died. His father, whom I can barely remember, had been fairly well-to-do, with a country store and a sawmill, but he lost all of that in the depression of the 1890s. So security was my father's aim in life,



## LESSONS OF LEADERSHIP

from then on, and it caused him, I thought, to make some mistakes."

However skeptically he may have regarded his father's cautious business moves, Bob Luby always found the cafeteria business itself to his liking. He opened several cafeterias of his own in the '30s. "In those days," he says, "you could get into the business with little money, and I liked that. We controlled our product, and I liked that. If I failed, it was me." Neither was he put off by the hard work involved: "It never bothered me. I didn't know it was hard."

While Luby served in the Army during World War II, he invested heavily in stocks. The postwar boom left him rich enough to retire, and he considered following his father's example. But after he and Johnston opened their first few cafeterias—mainly, he says, to give some friends a start in the business—"we said, hell, this is fun. So I got that retirement thing out of my head."

The chain grew slowly in the '50s as a series of interlocking partnerships, with Luby and Johnston the only constants. In 1959, when there were nine cafeterias, Luby persuaded the partners to become shareholders in a new corporation called Cafeterias Inc. From then on, the corporation built all the new Luby's cafeterias.

(At first, Cafeterias Inc. called some of its cafeterias "Romana," because a few cities already had competing cafeterias called "Luby's"—relics from Harry Luby's day. The company changed its name to Luby's in 1981.)

Bob Luby was the driving force behind the company's growth—the man who found the right locations and negotiated leases for new cafeterias, and who built the corporate structure to support them. Charles Johnston was the "people" specialist, oiling the machinery that Luby put together.

In November 1970, with the chain grown to 30 stores, Luby and Johnston kicked themselves upstairs, becoming chairman and vice chairman. George Wenglein, Luby's brother-in-law and his colleague in the cafeteria business since the '30s, succeeded Luby as president and CEO. Those titles have since changed hands two more times.

Even though Luby's is much larger now than it was 20 years ago, in many ways it has not changed at all. As when



**Luby's successors as CEO**—from left, Wenglein, Lahourcade, and Erben—eat often at a Luby's.

Bob Luby was in charge, the chain has grown at a steady, manageable pace, roughly doubling its number of stores every 10 years. Luby's has made successful modifications around the edges of its business—it has begun adding separate take-out entrances, for instance, and it faxes take-out menus—but at the core of the business, where fresh food covers those gleaming counters, nothing significant has changed.

"I don't know how many companies I've seen," Bob Luby says, "that had a good setup and then started complicating it. We tried to stay with the basic business we know."

Unlike some of its competitors, Luby's has not entered the specialty restaurant business or modified the cafeteria format itself. You will find no "all-you-can-eat" buffets at Luby's, and not even so apparently innocuous a change

as the "scatter system," which breaks up long lines by sending customers to several short counters instead of leading them past one long one.

"We like family trade," George Wenglein explains, "and there's nothing worse than a bunch of kiddos running to different counters."

(Bob Luby offers a more pungent explanation for why Luby's decided not to introduce the scatter system after he and Wenglein inspected a Houston cafeteria that used it: "George inadvertently stepped in front of a lady, and boy, did she tell him. I think that made us feel that the scatter system had weaknesses.")

Luby's has suffered some in Texas' weak economy. Sales have been flat at stores open over a year, and customer counts at those stores have actually slipped 1 or 2 percent a year since the mid-1980s. But no financial strains have pushed Luby's toward drastic measures: The company has kept its profits up by increasing prices and opening new units, and its long-term debt is only \$2.3 million—less than the average annual sales at one of its cafeterias.

Today's Luby's is, in short, very much what the company might be like had Bob Luby emulated the late Armand Hammer and remained in charge long past the normal retirement age.

Even though Luby's is much larger than anything Harry Luby contemplated, the son attributes much of its success to a policy that his father instituted: giving cafeteria managers lots of leeway and sharing the profits with them.

But if the policy originated with Harry, it has been implemented with a discipline and thoroughness that bear Bob's mark.

Luby's doesn't service its cafeterias from central warehouses; its managers buy food locally, and they can tinker endlessly with the menu, within wide boundaries. You may find prime rib or an Italian cutlet on the steam table in San Antonio, but neither one in sight at an Austin Luby's.

With that discretion comes daunting responsibility. Even though the average tab per tray is less than \$5, Luby's frowns on taking any shortcuts with the food. Each store makes its own mayonnaise, and those perfectly smooth mashed potatoes are the genuine arti-



cle—no potato flakes allowed. Luby's expects that roughly 25 percent of the average cafeteria's \$2.4 million in annual sales will wind up on the bottom line.

To come up with managers who can meet those requirements, Luby's seeks candidates who are college graduates but have no restaurant experience. (Says Wayne Shirley, director of management training: "It's easier for us to teach a person who doesn't know anything.") It puts them through 12 grueling weeks of training before they go to work as junior managers, for as long as eight years. Even after a manager finally gets his own store, his future is not assured; as Bob Luby says, "Sometimes they fail." (Luby thinks that George Wenglein may have been a little soft on faltering managers. He notes with obvious approval that Ralph "Pete" Erben, who became CEO a year ago, is considerably tougher: "Pete has already canned one or two fellows.")

In exchange for requiring that a manager lead such a rigorous life, Luby's assigns to each manager 40 percent of the store's net income. Part of that money must go to pay the salaries of one or two assistant managers, but the manager splits the rest, usually 65-35, with the second in command, the associate manager. The manager's share can be hand-

some: A half dozen or so managers make over \$200,000 a year.

Successful managers can count on moving up to bigger and more lucrative stores—Rudy Cedillo, for instance, came to his San Antonio store after managing one in Albuquerque, N.M.—and from there to area vice presidencies and other corporate jobs. Erben, the new CEO, was once a cafeteria manager in El Paso and Houston. (But other routes to the top are open, too: John B. Lahourcade, the CEO between Wenglein and Erben, came up on the financial side.)

It was mainly to open room for advancement that Bob Luby left the CEO's job. On an even more practical level, Luby believed that before the company went public—which it did in 1973—it should prove to the investment community that it could continue without its founders' day-to-day supervision. He still enjoyed running the business, he says, but "for the common good, you have to step aside occasionally; and it was time."

Although Luby and Wenglein remain the biggest individual shareholders—each with less than 5 percent of the stock—and both still sit on Luby's board, they say that they have resisted the temptation to tell their successors

what to do. "Both George and I felt that once someone else was running the company, we could advise them, but we couldn't give them orders," Luby says.

Luby set that precedent. Soon after he stepped down and Wenglein became CEO, he recalls, "George came up to me and told me about a problem and said, 'What'll I do?' I said, 'George, I don't know. What are you going to do?' And walked off. He said to me, 'I never thought you'd do it.'"

There is, however, a big difference between being in charge and not being in charge, even when you approve of what the people in charge are doing. Luby remembers how he felt when he gave up his power: "Bad! Relinquishing power I don't think is ever easy. You have to convince yourself that you should, and then do it."

In effect, he has tried to hold himself to a standard as demanding as the one that Luby's applies to its cafeteria managers.

Meeting that standard has been easier, perhaps, because Luby realized that the satisfaction he got from founding and running a company would not be complete until he knew that the company could continue without him. He puts it this way: "I never confused me and the business."

18

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# Small-Business Computing

*Help for those troublesome tax returns; notebooks, the hottest market in business computers.*

## TAX SOFTWARE

### Many—if Not So Happy—Returns

Personal computers are ideal for the complicated, detailed calculations of the sort that litter tax forms.

Complex corporate forms are best left to professionals, but for your own return, you will find one of the programs discussed here more than adequate.

Even if your return is so unusual that you need to take it to a professional, you will find it helpful to use one of these packages to organize your records.

All of the programs reproduce the applicable IRS forms on the screen for you to fill out. Each program has an "interview" mode that asks you questions about your tax situation and uses your answers to list supporting forms you will need. Each calculates totals automatically and passes the totals to the Form 1040. Then they will print your forms in a format acceptable to the IRS. They also offer you the opportunity to send your return electronically through their service bureau.

So, where are the differences? Partly in their experience in the field, their speed, and their price, but largely in whether you like the way the programs feel, and whether they work with the financial-management software you are already using (although most of them will import an ASCII file so that you can distribute the figures as you like).

All programs require IBM PC, XT, AT or compatible, 512K RAM, a hard disk and one floppy, DOS 2.0 or higher. Additional requirements noted below.

**TurboTax**, from ChipSoft, is the granddaddy of PC tax software. This year, it adds a Macintosh version of its popular program—a challenge to long-time Mac leader Macintax.

ChipSoft tries hard to make TurboTax accessible to users, beginning with an excellent installation routine (much improved from last year). Its major advantage is speed, and it offers a number of features, such as extensive help files that quote chapter and verse of the IRS forms. It calculates your entire return in a few seconds.

TurboTax also offers a "file cabinet" that allows you to enter figures for categories (like alimony payments), which the program will later transfer to appropriate files. It will suggest what in your return might trigger an audit, and it even includes some average U.S. figures for categories of expenses. TurboTax offers a "what-if" mode that lets you try



PHOTO: T. MICHAEL KEZA

different tax strategies to see the results.

List price, \$75; state returns, \$40 each (44 are available). Update of previous year, \$37.50. Macintosh version, \$89; each state, \$49. From ChipSoft; (619) 453-4446.

**Sylvia Porter's Rapid Tax by DacEasy** is a new entry, at least under the DacEasy name. Since DacEasy Accounting is so popular, the addition of a big-name financial expert's tax program should prove a winner. The interface is well-matched to other Dac products, and it will be familiar to their users.

This is a very large program offering more help than any of the others. It even offers look-up choices at specific lines (want to know the business codes for Schedule C? Hit F5).

Rapid Tax has an excellent tutorial, and it has an inviting, even rich look. The program contains many nice touches. For example, you can enter all text in lower case, and Rapid Tax will put capitalization where it should be.

Dac has some work to do on the manual (often illiterate) and the installation process. Neither intuitive nor clear in what it expects, it can make you inadvertently reinstall several disks—no

laughing matter in a program so big.

In all, Rapid Tax is a powerful, attractive program that will reward the time it requires to learn.

**Additional system requirements:** DOS 3.0 or higher. Price, \$79.95. State returns, \$49.95 (includes a general region with several states). (800) 877-8088.

### Parson's Personal Tax Preparer

is the price bargain at \$49—principally because it is mail-order rather than retail. Since none of the programs is outrageously priced, you might be swayed here if you are using a version of Parson's **Money Counts**. It imports easily from this sister program. The program offers a "quick entry" mode, in which you can enter information without a particular form in mind. It then transfers the data to the appropriate forms (with some limitations).

Earlier versions of the program were quite slow, though Parsons says it has improved this problem.

One other drawback: Personal Tax Preparer does not do state returns.

**Additional system requirements:** DOS 2.11 or higher. However, it turns out that if you have only 512K, 2.11 is as high as you can go; you need 570K for 3.3 and 640 for 4.1. \$49, with 50-percent discount to previous purchasers of the program. (800) 223-6925.

**J.K. Lasser's Your Income Tax** is an electronic version of the famous yellow-and-red guide. YIT's bonus is a copy of the Lasser guide. It has the best installation routine of all these packages, very helpful and simple to follow.

YIT is also one of the most colorful. Its features are roughly the same as the others: an interview that determines what forms you must fill out, data-passing from one form to another, automatic calculation, and the possibility of electronic filing. At completion, it audits the return to see if there are any questionable or problem areas.

I especially liked the interview question, "Are you a child under 14?" Does that mark one as particularly computer-literate?

List price, \$79.95. There are 24 state-return packages, from \$14 to \$76 each.

—Ripley Hotch



## SMALL COMPUTERS

## Powerful Lightweights

Almost every computer maker imaginable has rolled out a line of notebook computers recently. And no wonder. Sales of these 5-to-9-pound machines—mostly to business people—are red-hot compared with sales of their heavy-weight progenitors.

Retailers, who rang up 58.6 percent more in notebook-computer sales in 1990 than they did a year earlier, are forecasting a 40-percent increase in sales this year, to nearly \$4 billion. In comparison, desktop sales increased only 5.3 percent in 1990, and they could be flat or could even decline this year.

What's behind the growth in notebook popularity? Technological advance.

Notebooks, the best of them based on Intel's 80386 microprocessor, now sport the same raw computing capability as all but the high-end desktop machines—capability in a package about the size of—guess what—a notebook 8½ by 11 inches and about 2 inches thick.



If you are among the countless people who routinely work at your clients' business places, at your home, in your car, or in hotel rooms, consider adding to the boom in notebook computers.

Here are two shopping hints.

First, play with as many brands and models as possible. More so than with desktops, if your notebook keyboard seems too constricted or its display seems too dim at first use, it could drive you nuts later.

Second, don't buy more computer than you need. High-end notebooks list for as much as four times the prices of similarly configured desktop machines.

If you work on the road with big spreadsheets or databases, by all means look at the pricey 386SX or 386DX notebooks. But if your road work is mostly word and electronic mail processing, then consider purchasing one of the slower, lower-tech notebooks based on the 8088 or 80286 processors.

One low-cost notebook not to overlook is the **Tandy 1500HD**, available from

Radio Shack dealers nationwide. This tablet-sized unit is less than 2 inches thick and weighs under 6 pounds, including its battery and charger.

It runs at an adequate 10 megahertz, and its standard configuration includes 640K of RAM (expandable by another 1 MB for \$399.95), a 20MB hard-disk drive, a 3½-inch high-density floppy-disk drive, and one serial and one parallel port (but no video-out connection). The battery will last about three hours per charge if you don't go crazy accessing the disk drives.

The 1500HD is more than adequate ergonomically, with a full-size 84-key keyboard that provides 101-key emulation. It sports a more-than-adequate 640-by-200 pixel blue-on-white backlit display that lets you select either of two brightness levels.

The computer's case is attractive and durable. So is its hard disk, which was unfazed after being transported on my bicycle over Washington's cratered streets.

The 1500HD comes bundled with Tandy's DeskMate software, which includes a word processor, address book, calendar, filer, telecommunications program, and spreadsheet. The unit lists for \$1,999 but often is on sale for \$1,699.

—Albert G. Holzinger

## From The People Who Brought You The Impossible On The Previous Page.

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The Great Plains Accounting Series is PC Magazine's Editors' Choice. It is available on DOS, Macintosh and UNIX platforms and sells for between \$595 and \$1095 per module.

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# Benefits Update

*Trends and developments that will keep you current in the field of employee benefits.*

By Roger Thompson

## EMPLOYERS' EXPENSES

### The High Cost Of Employee Benefits

Spurred by soaring medical costs, employers spent 7.2 percent more on employee benefits in 1989 than in the previous year, pushing the average cost of benefits per full-time worker to a record \$11,527, according to new survey by the U.S. Chamber of Commerce.

The increase means that expenses for benefits in 1989 represented 37.6 percent of payroll, up from 37 percent, or \$10,750 per worker, in 1988.

Health insurance and health-related benefits—such as disability, dental, and vision coverage and retiree health insurance—rose sharply despite measures taken by many firms to control costs.

All medically related expenses rose an average of \$315 per worker, or 12 percent, in 1989, bringing the average cost per employee to \$2,853. That amounts to an increase of over 30 percent from two years ago, when the same benefits cost employers \$2,189 per worker.

"We're seeing health-care costs increase nearly three times faster than wages," says Martin Lefkowitz, who conducted the survey as director of special projects at the National Chamber Foundation, a research arm of the U.S. Chamber of Commerce. "These kinds of increases just can't continue."

Medical insurance alone cost on average \$2,150 per employee in 1989, but there were wide variations among industries. Public utilities paid the highest health-insurance costs, averaging \$3,220 per worker; department stores paid the lowest amount, \$588 per worker.

Large differences in health-insurance expenditures also appeared among regions. Companies in the East paid the most—\$3,639 per worker—while those in the Southeast paid the least—\$2,260. Average costs in the Midwest came to \$2,477; and in the West, \$3,015.

The survey results were based on responses from 957 companies. Among those surveyed, 140 companies had fewer than 100 workers, and 136 had more than 5,000. The survey, published annually since 1979, tracks eight categories of benefits: legally required (for example, Social Security), retirement and

### Growth Of Employee Benefits

(\$ In Billions)

	Total Wages & Salaries	Total Benefit Payments
1955	\$212	\$36
1965	\$364	\$78
1975	\$815	\$244
1985	\$1,966	\$691
1989	\$2,573	\$965

Source: *Employee Benefits*, compiled and published annually by the U.S. Chamber of Commerce.

savings, life insurance and death benefits, medical and medically related, paid rest periods and lunch, vacations and holidays, sick leave, and miscellaneous.

Based on the survey's findings, all U.S. employers spent an estimated \$965 billion on employee benefits in 1989, compared with \$892 billion the year before. (See the accompanying chart.)

"More firms, even the smallest of firms, are now giving some basic benefits, such as health insurance, vacations, and holidays, than was the case just a few years ago," says the survey report.

Health programs were almost universal among the survey participants. Ninety-nine percent of companies said they made some payment toward employee health insurance in 1989. Skyrocketing health-insurance premiums, however, have forced companies to adopt cost-containment measures.

Thirty-eight percent of the firms surveyed said they increased the percentage of health-insurance premiums paid by employees in 1989. Thirty-five percent reported that during the past two years they had either instituted a deductible (the amount paid by an employee before insurance takes over) or raised an existing deductible.

In the future, says Lefkowitz, companies must do a better job of containing health expenditures. One way to accomplish this is to establish a cafeteria-style

benefits plan. In such a plan, the employee chooses from a variety of benefits and is allocated a fixed amount by the company as its contribution to their cost. An employee who chooses benefits worth more than the company's contribution pays the difference. A cafeteria plan tends to shift the burden of future increases in benefits costs to employees. Twelve percent of the survey respondents had cafeteria plans in 1989, up from 10 percent in 1987.

The survey also found that a growing number of companies are switching from company-paid defined-benefit pension plans to defined-contribution plans, which are largely employee-funded. The percentage of companies with traditional defined-benefit plans, which guarantee pensions based on years of service and salary level, declined to 44 percent, down from 45 percent in 1988. But the percentage of companies with defined-contribution plans, usually 401(k) savings plans, increased to 54 percent, up from 47 percent in 1988.

Nearly 89 percent of the surveyed companies provided some type of retirement plan in 1989, up from 85.5 percent in the previous year.

### How To Order The Report

The survey report, *Employee Benefits, 1990 Edition*, costs \$25. Quantity discounts are available. To order, write to Publications Fulfillment (RKVL), U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. Ask for publication No. 0246. Make a check or money order payable to the U.S. Chamber of Commerce. To order by phone, call 1-800-638-6582; in Maryland, call 1-800-352-1450.

Also available is the *Employee Benefits Analyzer*, a computer software program that allows a company to compare its benefits with those typically offered by other companies according to industry, geographic region, and size. The program costs \$95. It runs on IBM and compatible computers with a minimum 256K RAM and the DOS operating system, and it is available on either 5 1/4- or 3 1/2-inch diskettes. The computer program is available through the address or phone numbers listed above.

Senior Writer David Warner contributed to this report.



## LEGISLATION

# States Mandate Parental Leave

Although President Bush last June successfully vetoed legislation that would have required employers to offer employees unpaid parental leave, this benefit is widely mandated.

More than one-third of the states already require most employers to provide some type of unpaid parental or medical leave for employees, and more states are expected to enact such legislation in coming years.

Ten states require employers to provide unpaid maternity leave to women for pregnancy and childbirth-related disabilities. They are California, Hawaii, Iowa, Kansas, Louisiana, Massachusetts, Montana, New Hampshire, Tennessee, and Vermont. The length of leave ranges among the states from eight weeks to four months.

Three states—Minnesota, Oregon, and Washington—require unpaid parental leave to be available for both men and women to care for the birth or adoption of a child. Time off ranges from six to 12 weeks.

Five states and Washington, D.C., provide unpaid parental leave to both men and women to care for the birth or adoption of a child, and unpaid medical leave for a serious illness of a family member or the employee. The states are Connecticut, Maine, New Jersey, Rhode Island, and Wisconsin. Time off ranges from two to 16 weeks.

Small employers are exempt from these laws, although the states differ in their definitions of "small." Some set the cutoff at 100 employees, others at fewer than 10.

## HEALTH INSURANCE

# AIDS Benefits Cut

A federal court in Texas has upheld a self-insured employer's right to reduce AIDS benefits paid by the company's own health plan.

U.S. District Court Judge Norman Black, in Houston, ruled recently that the Employee Retirement Income Security Act of 1974 (ERISA), which governs self-insured health plans, "does not mandate that employers provide any particular benefits and does not itself proscribe discrimination in the provision of employee benefits."

However, a new federal law, the Americans with Disabilities Act, will make it harder for employers in the future to cut benefits for AIDS. The law takes effect in stages beginning in July.

In the Texas case, an employee of H&H Music Co., a Houston distributor of musical equipment, told the company he had been diagnosed as having AIDS. The company switched from an insurer's health plan to a self-insured plan, and the firm capped lifetime AIDS benefits at \$5,000, compared with the \$1 million cap under the previous health plan. In his suit, the employee contended his rights had been violated under ERISA. The firm said it could not afford the financial burden of an AIDS claim.

## HEALTH INSURANCE

# Government Rejects Role In Cleanup

The Labor Department has told the states it is their job to regulate self-funded multiple-employer welfare arrangements (MEWAs), a source of health insurance for many small companies. The Labor Department issued its advisory after a number of state insurance commissioners went to Washington last spring to ask for federal help in cracking down on fraudulent self-funded MEWAs.

Self-funding simply means that the MEWA, instead of purchasing health insurance coverage from an insurance company, pays health claims from premiums collected from employers. In several states, operators of some self-funded MEWAs have collected millions in premiums and then skipped town. However, many self-funded MEWAs operate without legal problems.

Several state insurance officials have asked Congress to license MEWAs, to make it easier for state regulators to identify fraudulent operators. States currently do not license or regulate self-funded MEWAs because operators typically have convinced state insurance offices that a federal law—the Employee Retirement Income Security Act—bars states from doing so.

Not true, says a recent advisory opinion from the Labor Department; states already have authority to regulate self-funded MEWAs.

Following that opinion, the Connecticut State Insurance Department declared all self-funded MEWAs illegal; only those that purchase insurance—the so-called insured MEWAs—may operate. A state insurance official explained that Connecticut law gives the insurance department jurisdiction over insur-

ance companies only, and MEWAs are not insurance companies.

The state's Retail Merchants' Association has protested the action, saying it had to cancel plans to establish a self-funded MEWA for its members.

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## These Days When A Worker Has An Accident, Every

The Workers Compensation System was designed to help injured workers get well, and return to work. In most states, it does. In other states, the problems aren't simply big. They're enormous.

And beginning to spread into other states. Right down the line, everybody's starting to feel the effects—from the workers, to their families, to the employers, to the insurers.

### **The System**

Over 75 years ago, when it was created to protect workers from on-the-job injuries, Workers Compensation was based on some well-intentioned and well-received ideas:

To prevent work-related accidents from ever happening.

To give prompt, quality medical attention

and equally prompt income benefits.

To rehabilitate injured workers and help them get back to work.

To offer cost stability to the employer.

And ultimately, to keep the entire workplace productive—the less down-time, the more time you have to be competitive, and stay competitive.

### **The Obstacles**

It bears repeating: There are problems. Big problems, in many states, that need fixing. We also need to strengthen the system so that these problems don't spread to other states.

Problems like unnecessary, time-consuming litigation. Soaring claims costs. Underfunded, understaffed state-administered agencies. And on a national level, runaway medical costs.

Fact is, the economies of entire states are





## body Gets Hurt.

hurting — partly because businesses won't relocate in places where Workers Compensation is in disarray.

For some states, the situation is so critical, insurers have stopped writing Workers Compensation Insurance altogether — premiums won't even cover losses and expenses.

### The Way To Help

What can *you* possibly do to help? You'd be surprised. To help restore and strengthen the system in your state, you can take two courses of action.

First: Be aware. Find out what's happening in your state, how you're affected, and what you can do to help. Talk to your insurance company or business trade association.

Or two: Share your views by writing to

Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

When strong and fit, the Workers Compensation System works hard, and works well. Everyone it touches, it benefits — especially the injured worker.

Which is why, considering all it stands for, we should do everything possible to keep it standing.



## Help Strengthen Workers Compensation.



# Family Business

*A new trend in learning; reaching for the best managers; dealing with a fractious second generation.*

## COMMENTARY

### Family Businesses Take To The Networks

By Sharon Nelton

If the 1980s were the decade of the family-business seminar, the 1990s are fast becoming the decade of family business "forums," or "networks."

Seminars typically are one-time events lasting from a few hours to a week. But in 1987, management professor Craig E. Aronoff launched a different concept—the Family Business Forum—at Kennesaw State College, in Marietta, Ga. It was such a good idea

families who attend a one-time event.

The new Family Business Program at Loyola University Chicago offers seminars; capsule courses in business and career planning; and assessment testing and counseling for younger family members. The Wharton Family Business Network at the University of Pennsylvania, begun in 1988, now operates two 25-family networks in Philadelphia and one in Mexico.

Joseph H. Astrachan, associate director of the Center for Management at the Institute of Living, a psychiatric center in Hartford, Conn., has described the Kennesaw forum as "the nation's premier model of college-based educational programs for family businesses." But obviously he thinks such a program doesn't need a college behind it; he has just helped initiate the New England Family Business Forum under the aegis of the Center for Management.

The annual fees for membership programs range from \$1,000 to \$5,000. Corporate sponsors help keep costs down in the lower-priced programs.

What do members get out of such programs? Most important, says Aronoff, is "agenda setting." He says discussing touchy issues in the safety of a forum can enable family members to put them on the docket for discussion at home.

For participants, the opportunity to connect with peers is key. "It's lonely at the top," says one Kennesaw member, who says now she can call other CEOs in the group for advice when she has a problem. "There is a hard core of us that rejoin every year. It is sort of an extended family with a business relationship that is incomparable."

*For information on where network-type family-business programs are located, contact the Family Firm Institute, P.O. Box 476, Johnstown, N.Y. 12095; (518) 762-3553.*



PHOTO: TIM CHENG

**The opportunity to connect with peers is key.**

—Sharon Nelton

that other folks have been picking up on it.

The Kennesaw forum is an ongoing, membership-based program limited to 50 local family firms. They sign up by the year, paying an annual fee for quarterly one- and two-day seminars. Participants have the opportunity again and again to interact with and learn from each other.

Program topics have ranged from strategic planning to how divorce affects a family business. The only rule, says Aronoff, is that every seminar deals with both family and business.

Patricia A. Frishkoff, director of Oregon State University's Family Business Program, is converting OSU's annual family-business conference to a "Family Business Membership Series" beginning in March. She says that when participants meet on a continuing basis, they work on family-business issues more effectively and do more planning than

## PLANNING

### You Deserve The Best Managers

By Craig E. Aronoff and John L. Ward

When we survey family-business owners about matters that concern them, a response that is always near the top of the list is "how to attract, retain, motivate, and compensate key, nonfamily managers." When we probe deeper, we hear questions and doubts: "Why would anyone really good want to work for me? How can I keep ambitious people? Won't they want so much that I can't afford them?"

Getting and keeping top-quality managers seems so difficult and expensive.

But there's good news. There has never been a better time to seek excellent managers, and you can usually satisfy their needs. The greatest obstacles are the business owner's attitude, modesty, and misplaced concerns.

Many family-business executives believe that experienced professional managers have no interest in smaller companies. After all, with family involvement, presidential aspirations are often unrealistic for nonfamily managers. Besides, owners think, smaller businesses can't adequately use professional talents and education—much less fulfill a pro's ambitions.

Business owner, you are too humble. You deserve the best managers, and you can get them.

Although working in a smaller business isn't for everyone, for many it is a choice that's more attractive than ever before. Family companies committed to long-term private ownership look increasingly secure. They may offer more opportunity for those seeking to make a real difference.

Rarely a week goes by without our receiving phone calls that go something like this:

"Hello. I understand you are in contact with a lot of family businesses. Well, I've been [position of significant professional managerial experience] for several years. I have a [brand-name MBA]. I'm bored [or frustrated, or merged, or eliminated by cutbacks or early retirement]. I'd love to find a



# Just a couple of facts can make all the difference.

A newspaper Rudyard Kipling subscribed to published by mistake an announcement of his death. Wrote Kipling to the editor: "I've just read that I am dead. Don't forget to delete me from your list of subscribers."

The papers have not yet declared the banking industry dead. But with the rubble of much of the savings and loan industry lying at the nation's feet, the question on people's minds and in newspaper headlines is "Are the banks next?" The interest in any important parallels is understandable. But the analyses often overlook two vital facts about the banking industry:



Richard Kirk, Chairman  
United Bank of Denver, Denver, CO  
President, American Bankers  
Association

*"Industries, individuals, and  
regions have ups and downs—  
most of them unpredictable.  
And banks reflect  
the economy."*

**Vital Fact #1.** Banks are different from S&Ls in fundamental ways. Historically, banks have been subject to more stringent regulation (the rules under which they operate), supervision (examination of performance under and adherence to those rules), and capital standards (the cushion against losses) than S&Ls. When the going got tough for S&Ls, they got lower capital standards, squishy accounting practices that camouflaged their condition, and relaxed supervision. By contrast, banks have increased their capital and reserves against loan losses, and failed banks have been closed promptly. Yes, some banks have problems. But the industry ended the year brimming with \$16 billion in profits and over \$200 billion in capital.

**Vital Fact #2.** Banks are supposed to take risks. They lend people money with the expectation that it will be paid back. Sometimes it isn't. Banking is a business of judging which people and projects are good credit risks. Most times their judgments are right. Sometimes they're wrong. But their job is to go on making judgments.

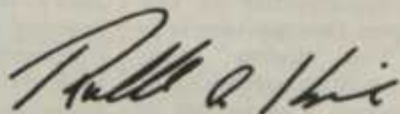
"If you have zero loan losses, you're not doing your job," Federal Reserve Board Chairman Alan Greenspan told the Board of Directors of the American Bankers Association last May. My hunch is that the public never considers this notion, which is fundamental to the growth of our economy. Ask the man on the street if banks should have loan losses, and he'll probably say no. (The only time he thinks bankers should take leaps of faith is when it's his loan application.) Yet to be a banker is to daily make judgments that an individual or business can repay a loan and to take that chance.

Industries, individuals, and regions have ups and downs—most of them unpredictable. And banks reflect the economy. Bankers who have extended credit in good times wake up to find themselves riding the toboggan downhill when the economy softens. Such events do not herald the end of the world; they are the push and pull of risk-taking and regulation/supervision.

Regulations limit banks' exposure, and supervision monitors deterioration in much the same way that an annual physical monitors symptoms. Sometimes a change in behavior, medicine or even hospitalization is required to return the individual to health. And some patients die. So, too, with banking. Some banks fail. But those who nervously report that 500 banks have problems ignore the fact that 12,000 banks are rock-solid—and that the FDIC fund is fully financed by banks, not taxpayers. When the fund goes down (as it has), bank premiums go up (as they have).

Banks are not trying to sweep bank problems under the rug. Bankers' concerns are the same as the regulators' concerns. Neither one wants a bank to fail any more than a patient or doctor wants the patient to die. Bankers want guidance on how to remain profitable. And we want crooks to go to jail and poor managers to go into a different line of work where they won't be driving up our FDIC premiums.

We all care about banking's future, whether it's our occupation or the resting place for our savings. But it would be a mistake to cause added problems in the banking industry and the economy by drawing misleading parallels with the S&L crisis. If you have questions about your bank, you won't find the answers that matter in the newspaper. You'll find them at the bank. Call your banker. Talk to us. That's what we're here for.



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smaller, family business where I could make a real contribution."

Even students have heard the word and are becoming much more interested in careers with smaller businesses. Excellent professional executives are out there looking for the chance to go to work for you and your family business.

A second reason underlies business owners' reluctance to seek the best. Entrepreneurs often prefer loyal and less ambitious employees. Once they fill a slot, they hope never to have to do it again. They dread the process of recruiting people and negotiating compensation.

They also seem to like people who won't challenge the boss too much or press for increased responsibility. By nature they prefer to have personal control; they have difficulty delegating.

Their real fear is that a top-flight manager will eventually leave. Turnover is painful—so what's the use? The only conclusion: Hire satisfactory people with limited motivation—not the best. Besides, they're cheaper.

A different attitude is to seek excellent managers and give them greater responsibility. If one does leave for a better opportunity, you have another in the pipeline ready for promotion. Besides, good managers aren't expensive; they pay for themselves in the ideas they promote and the burdens they share. It's not what an employee costs that counts. What's important is the return on your investment.

You may agree to seek the best managers, but you ask how you can reward them enough to keep them. In large, public companies, top managers have an opportunity to receive stock, while you, on the other hand are—properly—very reluctant to distribute any stock out of the family.

We have found many innovative, wealth-creating opportunities for key nonfamily managers. One approach is to offer "phantom," or "shadow," stock. This device is merely an agreement to pay a valuable person a percentage of the increase in the business's value, such as book value or any formula you wish.

Some family businesses include their key people in special personal investment opportunities outside the business. A business owner might participate in real-estate ventures, equipment-leasing arrangements, or licensing fees and give the key nonfamily managers the chance to get in.

### Suggestions For Nonfamily Executives

If you're a nonfamily manager in a family-owned company, here are some tips for continued success:

- The best security is personal competence. Keep investing in your personal development, and keep your personal network of contacts alive. These are more valuable than employment contracts.

- Beware of family triangles. Avoid situations in which one family member critiques another to you. Encourage family members to discuss issues directly, face to face.

- Avoid being a confidant. However privileged you may feel to learn private family information, it's more prudent to keep the relationship strictly professional.

- Promote the inclusion of outside directors on the board. That's a sure sign that competence will be regarded and rewarded.

in the organization, they symbolize the owning family's commitment to the future, and they demonstrate that other managers will be welcome.



PHOTO: T. MICHAEL REZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

## Mark Your Calendar

### Feb. 12, Green Bay, Wis.

"The Family Business Forum," a one-day seminar offered by the University of Wisconsin-Green Bay, featuring *Nation's Business* columnist John Ward and the forum's director, Michael Troyer. For further information, contact the University of Wisconsin-Green Bay Business Development Center, Green Bay, Wis. 54311-7001; (414) 465-2482.

### Feb. 21-23, Duck Key, Fla.

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a conference sponsored by the Philadelphia accounting firm of Drucker & Scaccetti. Speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. Call (800) 521-1818.

### Feb. 23, New York

"Sharing the Wealth," a one-day seminar sponsored by the New York University Family Enterprise Project. The session will focus on matters such as profit-sharing, dividends, salaries, trusts, foundations, and wills. Write or call LaVaun Eustice, Assistant Director, Management Institute, New York University, 48 Cooper Square, Room 108, New York, N.Y. 10003; (212) 998-7215.

### March 1, Portland, Ore.

"Creating a Legacy, Not a Tragedy, in Your Family Business," first session in the new Family Business Membership Series sponsored by Oregon State University. Contact the Family Business Membership Series, College of Business, Oregon State University, Bexell Hall 205, Corvallis, Ore. 97331-2603; (503) 737-3326.

### March 9, New York

"Women in the Family Business," a seminar in the New York University series. See the Feb. 23 listing for contact information.

### How To Get Listed

The *Family Business Calendar* lists national and regional events that are open to the public. Send listings three months in advance to Family Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.



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Jerome Schneider is America's foremost authority on offshore money and banking. For more than 15 years, he has helped businessmen, investors and entrepreneurs make and save fortunes using offshore money centers.



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## CASE STUDY

## Feuding Kids Keep Dad From Retiring

John Ware is ready to retire from the meat-processing company he founded more than 40 years ago. He no longer wants to worry about the day-to-day issues of the business, and he hopes to turn it over to the children. But the children are not getting along, and John and his wife, Arlene, fear that the friction in the younger generation will get worse when John retires.

Three sons (Chris, 32; Jim, 30; and Dave, 29) and one son-in-law (Andy, 30) work in the business, and the fourth son (Mike, 25) wants to return to the company. Mike joined the business after high school, but he hated working for his old-



ILLUSTRATION: DAVID CHEN

er brothers because they were constantly on his back. Consequently, he did not perform well, and he left after two years. Since then, he has worked at odd jobs and has not been noted for his success.

John and Arlene are pleased that

Mike wants to return to the family business because their dream is for all their sons to work together. But Jim worries that Mike will not work hard and that there will be as much animosity between him and Mike as there was before.

Jim is already having problems with his sister, Cindy, who is Andy's wife. Cindy feels that Jim is too hard on Andy and complains that he is always criticizing Andy in front of employees and family members. Cindy and Andy have missed the last few family dinners because of Jim.

John and Arlene are concerned because they see the family being pulled apart. John has always treated everyone equally, from salary to benefits, so he doesn't understand why they all can't get along. What can he do?



PHOTO: CHADE THWALL

### Treat It Like A Business

*Joan Sulzer, president of Sulzer Management Strategies, a Chicago firm specializing in family-owned and closely held businesses:*

This is the typical family enterprise where the owner treats the business more like a family than a business. The business employs all the children regardless of qualifications or job openings, and all are treated equally regardless of competence and diligence.

We see here some of the problems that arise from this philosophy. John doesn't have the confidence in his family to get along if he is not present, so he cannot bring himself to retire. Jim resents Mike because Mike will probably not carry his weight, and Jim's criticism of Andy is causing family disharmony.

What John needs to do is think about the family firm in terms of a business. He must decide first what is best for the business and then what family members can be accommodated in it, instead of accommodating the family at the expense of the business and the long-term health of the family.

To work toward harmony in the family, it would be advisable to have a family-business retreat. Those attending would include the parents, all children and their spouses, and a trained family-business consultant. The consultant can guide the family in developing a family-business mission statement, establishing rules and criteria for joining and staying in the business, and drawing up a process for conflict resolution. The family can also address such issues as stock ownership and management succession.

If Mike returns, he should be provided with a job description that indicates specific tasks and spells out the behaviors that are expected: working hours, level of work activity, and reporting relationships. Mike's immediate supervisor should work out with him the precise measurements that will be used to evaluate his performance. Mike should also clearly understand what the consequences of his performance will be.

Once the business is treated like a business, John can fulfill his desire to retire with some peace of mind.



PHOTO: CLINDA BUE SCOTT

### Defuse Sibling Rivalry

*Dennis Jaffe, professor of management at Saybrook Institute, in San Francisco, and an organization-development consultant:*

The Wares have sacrificed business considerations for a very unrealistic vision of family togetherness. Ironically, John has set the stage for a slam-bang family feud when he dies or withdraws. There seems to be no business governance structure to regulate the children's tenuous and confused relationships.

The sons and son-in-law are all close in age, and their work roles and responsibilities are not clear, setting up a competitive situation. What is expected of family executives in the business? How is their competence measured? Can the business support them all and offer each one a meaningful role? If Mike returns, what will he do? These are questions that must be answered.

I recommend business-development planning and structuring as a way to shift family members' conversation from their own rivalries to looking at the desire to have a business that can accommodate them all. The latter is a common goal and can form a framework for them to explore what it will take from each of them to contribute to the business's survival.

Everyone needs to look at where the business is and the challenges it faces. What skills are needed for the future chief executive and key managers? Who has those skills or can learn them? For the brothers to work together successfully, they have to have clearly defined responsibilities.

The Wares need to consider the development of each son—and the son-in-law—as a manager, and to create a forum to consider who will eventually take control of the business. The ownership question needs to be settled equitably among the heirs (though perhaps not with equal shares), keeping in mind that the next top managers need to have control of the company even if they don't have a majority of the stock.

The Wares need to do a lot of difficult talking, planning, and working together to emerge from this volatile situation. If they don't, it can only grow worse.

**This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Johnstown, N.Y.**



# Address For Success

By Sharon Nelton

**D**oing a good job of making speeches and business presentations can help you win a promotion, a contract, or even a loan at the bank.

But many business owners and managers have poorly honed speaking skills, and others, fearing embarrassment, avoid speeches altogether.

You may have brilliant ideas that you want to share. But if you don't develop and use your speaking skills, "then you have all this knowledge locked up within a body that cannot communicate it to someone else," says Midge Costanza, who gained national prominence as assistant to the president in the Carter administration.

Two years ago Costanza and a friend, Kathleen Martin, formed Martin & Costanza, an Escondido, Calif., firm that provides media training and speech coaching to executives in businesses around the country. Martin is a psychologist who has conducted corporate seminars on such topics as stress reduction and creative thinking.

Together they have 30 years of professional speaking experience that spans the spectrum—from giving presentations that were so bad they "slithered away," to speeches that brought standing ovations. "We've made all the mistakes," says Martin.

Nonetheless, because they have had to achieve results for themselves through speaking to audiences, says Costanza, "we know how to get results for other people."

Here are some of the worst mistakes that can be made in public speaking, according to Costanza and Martin, along with ways that such problems can be prevented or overcome:

**1. Letting fear stop you.** Some people are so overwhelmed by fear of public speaking that they refuse to do it. But a little fear is natural, and a paralyzing fear can be subdued in most instances. The trick is to make fear work for you. Martin says she releases the fear "as energy," projecting her voice more and



PHOTO © RICHIE SHERRIT

*Videotape is one of the tools that Midge Costanza, left, and Kathleen Martin use to help business people improve their public speaking.*

"letting my gestures flow more." After a few minutes, the fear disappears.

Learning relaxation exercises, such as deep breathing and visualizing yourself as confident in front of a group, can help. It's also important not to see the audience as your enemy but as generally supportive, Martin says. She and Costanza agree that the more you speak in public, the more your fear will decrease.

The rest of these pointers, too, should help you reduce your fear and thus increase your confidence and public-speaking ability.

**2. Lack of respect for your audience.** Treat your audience as a special group of people with whom you are going to share information. Before you give the speech, find out as much about them as you can so that you can tell them what they want to know in language they understand. For example,

*Conquer stage fright and improve your speaking skills with these experts' suggestions.*

don't address a nontechnical audience in technical language.

**Make eye contact.** Look someone squarely in the eye and hold that look for a count of 3. Then find someone else in a different part of the room, and do the same. This makes people more involved in what you're saying, and it's more relaxing for you, too, because you feel like you are talking to individuals instead of several hundred people.

"I learned a long time ago that if I really care about the audience, I'm not nervous," says Martin.

**3. Being unprepared.** Not knowing your material makes you nervous because you're not sure of what you want to say. Put what you want to say on paper or on cards (in large type, triple-spaced). Then, says Costanza, "study it, study it, study it." Practice in front of a mirror and in front of friends and family.

Whenever you are hired or assigned to make a presentation, find out what your client or supervisor expects. Ask: "When I leave, what do you want the audience to know?"

**4. Annoying speech habits.** These are the "ums," the "uhs," the "you knows," and other nonwords and fillers that speakers say unconsciously. "Many people are afraid of silence when they're in front of a group, and that's why they fill it up with 'um' or 'ah,'" says Martin.

Instead, make use of silence. First, start hearing yourself make the annoying sounds so that you can root them out. Listening to yourself on tape helps. Substitute fillers with a breath or a pause. "Just stopping—pausing—can be your dramatic comma, period, or exclamation point," says Costanza. Using the pause for emphasis lends more importance to what you say and gives you time to think about what to say next.

**5. Underestimating the importance of appearance.** Eighty percent of your effectiveness depends not on what you say but on how you look and sound when



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you say it, says Costanza. Keep your arms relaxed at your sides so that you are free to gesture in a natural way to emphasize certain points in your talk.

Stand with feet slightly apart and with weight squarely on both feet. Good posture makes you look more confident. Also, dress a notch or two above your audience. If everyone in the audience is wearing jeans, a casual business outfit is appropriate for the speaker.

Check yourself in a mirror right before your presentation to make sure there's nothing amiss.

**6. Not paying attention to how you sound.** Speaking in a monotone may be common in business meetings, says Martin, but it can put an audience to sleep. Modulate your voice. Use inflection for a livelier sound, and pace yourself so that you don't talk too fast. Deep breathing from the diaphragm will help you project your voice.

**7. Walking cold into the room where you will speak.** In advance of the meeting day, talk with the person in charge to get as much information as possible about the setting in which you'll speak. If possible, check the room ahead of time so that there are no unpleasant surprises. Make sure the microphone and other equipment work.

**8. Neglecting your own physical needs.** Wear comfortable shoes. Avoid a heavy meal before your presentation. Don't drink coffee or soft drinks—you can't go to the restroom during your speech. Giving a talk is demanding, so try to be as physically comfortable as you can while you're doing it.

**M**artin and Costanza suggest that you put together a checklist that you can use in preparing for all your presentations. Include such things as topic and length of talk, who the audience is, who will introduce you and what you would like that person to say, what kind of lectern and equipment you need (if you are short, request an adjustable lectern or a step that you can stand on). Determine as much as you can beforehand so that you can give your audience what it wants with the best delivery possible.

With practice and experience, you can improve your public-speaking skills, and fear will no longer block your way.

Says Costanza: "What stands between success and failure for a lot of people is their ability to stand on their feet, either on a one-to-one basis or before a group, and make a presentation that is convincing and believable."



To order reprints of this article, see Page 69.



## ENTERPRISE

# Small Firms' Top Concerns

By Bradford McKee

**S**mall-business owners rate the availability and cost of health care, the cost of employee benefits generally, and local economic conditions as the most critical problems facing their businesses.

Other problems are the availability and cost of property insurance, competitive pricing pressures, and increasing costs of complying with government regulations.

Those concerns were spotlighted in the Blue Chip Enterprise Initiative Survey conducted for the Connecticut Mutual Life Insurance Co. in connection with the launching of the Blue Chip Enterprise Initiative.

The initiative will identify and recognize small businesses that have been particularly impressive in solving problems and achieving success. Other companies facing similar problems will be able to draw on the lessons provided by the Blue Chip Initiative firms.

Says Denis F. Mullane, president and chief executive officer of Connecticut Mutual: "Small-business owners recognize that there are many new challenges and problems ahead. The least we can do is offer them the help they need to compete in the decade ahead."

Connecticut Mutual is sponsoring the initiative in collaboration with the U.S. Chamber of Commerce, which publishes *Nation's Business*.

The survey, which covered 594 firms with five to 300 employees, provides an overview of how the small-business community sees itself as the initiative gets under way.

Nearly two-thirds of the small-business owners surveyed do not expect the economy to improve over the next decade; only 38 percent expect faster sales growth; only 36 percent expect higher profits.

At the same time, there was little support among entrepreneurs for the idea they would have been better off if they had not started their firms.

Commenting on the findings, Edward

M. Moldt, director of the Snider Entrepreneurial Center at the University of Pennsylvania, said he was surprised by the grim economic outlook because such pessimism "typically goes against the grain of most entrepreneurs."

Another major theme in the survey results is concern over the role of government in the marketplace. That is reflected in strong endorsement of the message implicit in the question: "Small

*Benefit costs and economic conditions are the most critical problems cited by firms in the Blue Chip Enterprise Initiative Survey.*

telemarketing companies, and direct-mail marketers.

On the other hand, Maurer adds, technology has enabled well-capitalized firms to expand beyond their original bases. This will become an increasingly important strategy, he suggests: "The smaller business that has not looked outside its town can expect diminished market opportunities in the future."

In their efforts to cope with competition, the small firms see the need to find and retain qualified employees as one of the detriments they are facing in the 1990s. (See the cover story, on Page 16.)

"If I were looking for where the leverage is in small business in the next 10 years, I'd say it was in motivation of the work force," says the University of Pennsylvania's Moldt. "People are the only leverage you have, the only things that are unique to you."

Connecticut Mutual's Maurer says that meeting hiring goals will require small-business owners to rely more on untapped community resources and expertise. Local and state chambers of commerce and other community groups offer re-

sources to help fight problems ranging from inadequate education to drug abuse, he points out. Maurer notes that such sharing of information is one of the goals of the Blue Chip initiative.

In the survey gauging overall small-business attitudes, the entrepreneurs were asked to rank various concerns facing business today on a scale using 1 to indicate no problem at all and 10 to mean a critical problem. Scoring on the top issues in that category appear in the chart above.

In the rankings of detriments to business success, scores ranged from 1 to indicate no detriment to 10 signaling a major detriment. Taxes topped that list at 7.6, followed by increased governmental regulations at 7.4, and economic problems at 6.6. Interest rates drew a 6.5, challenges of attracting and retaining employees a 6.1, and increasing concern over the environment, 5.2.

## How Small Business Ranks Problems

On A 10-Point Scale: 1 = No Problem 10 = Critical Problem

	Total
Availability / Cost Of Health Care	7.9
Cost Of Employee Benefits	7.5
Impact Of Local Economy	7.3
Availability / Cost Of Property Insurance	7.2
Pricing Pressures	6.8
Higher Regulatory Compliance Costs	6.7
Cash Flow	6.6
Balancing Quality And Costs	6.4
Credit Crunch Limiting Growth	6.2
Low Worker Productivity	5.9

businesses are so important to the nation's economy, why doesn't the government do something to support us instead of burdening us with more and more regulations?"

An additional concern about government's role deals with specific roadblocks. Taxes, increased regulation, and economic policy were listed, in that order, as leading detriments.

While such large-scale economic problems as the federal deficit ranked high among detriments to business progress, local economic conditions were also a concern.

"The smaller businesses seemed more dependent on their local economies and were pessimistic," says Timothy S. Maurer, director of sales and marketing communications for Connecticut Mutual. He points out that many single-establishment firms are now facing more competition from national chains, franchises,



# Tools For The Office Trade

By Jon Pepper

**A**lthough computer technology has radically changed the way office workers process, store, and reproduce documents, it likely will be some time before most office employees will operate entirely without copiers, fax machines, typewriters, word processors, and other lower-tech tools of the trade. In fact, the current breed of office equipment is so technologically advanced that the line separating traditional office fare and computer wares probably has been blurred for good.

The following products represent some of the best office equipment that today's technology can offer. These products, in general, are more reliable, more functional, and sometimes priced lower than their less sophisticated predecessors.

On the subject of cost: Although advanced technology is not always available at a low absolute price, many businesses, through aggressive investment in high-tech office equipment, have realized productivity gains that more than offset the costs of the equipment.

## Copiers: New Models Are Rugged And Fast

The fact that basic photocopy technology has not changed much in years does not mean that there is nothing new in copiers this year. New models are rugged, operate at high speeds, and are endowed with some incredibly sophisticated abilities (witness the Xerox DocuTech review, below).

One thing to keep in mind when selecting a copier: Find one that is compatible with your overall office needs.

Most businesses tend to purchase middle-volume or high-volume models. Middle-volume copiers generally are those rated for 10,000 to 40,000 copies a month at speeds in the range of 15 to 50 pages per minute (ppm). High-volume machines churn out up to 70 or more pages per minute and easily can handle 50,000 or more copies a month. Buying too much copier is a waste of precious capital, yet underbuying can lead to frustration and frequent service calls.

**Canon NP9800.** Canon, which has been a strong presence in the midrange

copier market for a long time, has set its sights higher with the NP9800, a machine that turns out 83 ppm and includes sophisticated features such as a 5,100-sheet paper capacity, automatic printing on two sides per page (called duplexing), and a 20-bin stapler/sorter. The NP9800 can handle up to 150,000 copies per



**Canon NP 9800** includes sophisticated features and makes up to 150,000 copies per month.



**Mita DC-7085** can handle all sorts of finishing options with push-button ease.

month without major servicing. Options include a tracking system for up to 200 users. Suggested base price is \$36,000. Phone: (516) 488-6700.

**Kodak Ektaprint 90 Copier.** Part of Kodak's middle-volume line, the Ektaprint 90 has a capacious 2,550-page paper supply and limited color-copying options. Copy speed is 50 ppm on paper up to 11 by 17 inches, with an automatic duplexing stack feeder, four-source paper input, and an automatic stapler as an output option. Loads of other fea-

tures, including memory so that jobs can be performed on a regular basis without reprogramming (called job memory) and a mode that allows the machine to copy pictures clearly, make this \$16,800 product extremely appealing. Phone: (800) 255-3434.

**Minolta EP 8601.** Minolta's EP 8601 is a 50-ppm copier that can do it all. The system has a binding function (it can staple and stamp), an easy-to-use control panel, and job memory through the use of plug-in cards. The suggested base price is \$19,990. Phone: (800) 821-7700.

**Mita DC-7085.** For intensive production, the \$17,995 Mita DC-7085 provides a 3,550-sheet paper capacity and almost every feature imaginable. In addition, an optional module can handle all sorts of finishing operations, from collating and sorting to stapling with push-button ease. Phone: (800) ABC-MITA.

**Panasonic FP-1670.** Panasonic hopes to distinguish itself in the copier field with the FP-1670, which features a modular design and 16-ppm speed. Because of its modular design, numerous options can be added easily. Basic features include fine detailing (for copying photographs), enlargement and reduction capability (called zoom) from 50 to 200 percent, and color copying in blue, brown, green, and red. Options include expanded 2,750-sheet paper capacity and an even higher speed copying engine. Price is \$2,895. Phone: (800) 742-8086.

**Ricoh NC-100.** At \$13,495, the Ricoh NC-100 is currently the low-price leader among full-color, plain-paper copiers. It's a bit slower at full color than other manufacturers' comparable models, at about 4 ppm, but its black-and-white copying speed is a respectable 24 ppm. As you might expect, there are numerous features, including zoom, twin 250-sheet paper trays, and a lock-out feature to restrict color copying to designated workers. Cost for supplies runs about 10 cents per page. Phone: (800) 63-RICOH.

**Sharp SF-7850.** For a unit that packs high-end features in a compact cabinet, the Sharp SF-7850 is a fine choice. The \$3,495 system offers 15-ppm speed, a 250-sheet input tray (with an



*These copiers, fax machines, typewriters, and other equipment represent some of the best office products that today's technology can offer.*

optional 50-sheet bypass tray), and automatic original-size sensing that provides an appropriate copy ratio when originals of different sizes are copied onto regular-size paper. The built-in zoom technology allows for reduction or enlargement from 50 to 200 percent in 1-percent increments. Options include an automatic document feeder and a 10-bin sorter. Phone: (201) 529-0397.

**Sharp CX-7500.** Sharp's CX-7500 is a full-color, plain-paper copier that can churn out sparkling color at a rate of 7.5 ppm (or 22 ppm in black and white). The machine has a seven-color copying process and a zoom, and it fits into about the same space as most less advanced office copiers. Price is \$17,495. Phone: (201) 529-0397.

**Toshiba 2510.** Standard operating features of this just-introduced desktop system include a rated speed of 25 copies per minute, automatic two-sided copying, a magnification ratio of 50 to 200 percent, programmable job memory, use of variable size paper, programmable access codes, automatic exposure control with manual override, automatic toner monitoring, job settings to 999 copies, and interchangeable color developer units. Options can bring the unit to console-level performance. The 2510 goes on sale in February at a price of \$6,299. Phone: (714) 651-9780.

**Xerox 5034.** Versatility is a hallmark of the Xerox 5034, which features automatic duplexing and the ability to put covers on copied sets. In its duplexing mode, the 5034 can invert originals for two-sided copying and shift images to provide extra margin space for binding. Copy speed is 28 ppm, with a 950-sheet paper capacity. Price is \$9,100. Phone: (800) 362-8832.

**Xerox DocuTech Production Publisher.** Xerox recently introduced the DocuTech, which is impressive in terms of sheer size and versatility. The unit is a veritable wall of electronic document capabilities, combining features from copiers, scanners, computers, and laser printers. It can whip out documents at an incredible 135 ppm, and it has three main components: a 600-dots-per-inch digital scanner, an icon-based graphical

user interface (displayed on a CRT) that controls all job makeready and management, and a 600-dots-per-inch laser printer. The system supports popular computer printer languages, and it comes with a three-year total-satisfaction guarantee. All in all, this is one impressive piece of office equipment



*Ricoh NC-100 is a leader among full-color, plain-paper copiers.*



*Xerox DocuTech Production Publisher does everything from copying to laser printing.*

available with a price to match: \$220,000. Phone: (800) 362-8832.

#### **Fax Machines: Plain-Paper Models At Bargain Prices**

The news in facsimile technology is the introduction of inexpensive plain-paper fax machines. They produce fax documents that can be easily copied, filed, or used at presentations without smearing, curling, or generally looking ragged. Some new plain-paper models do double duty as laser printers.

Although there has been no shortage of thermal-paper faxes, users of thermal faxes were demanding—and now are getting—bargain-basement prices.

**Brother instaFAX340.** For light- and medium-use situations, the thermal-paper instaFAX340 delivers excellent performance. Its 256K of standard memory is enough to store about 14 pages of transmission, and the system can be used as a no-frills copier. Features include a 32-shade gray scale, automatic redial, a security mode (for confidential transmissions), a built-in phone with a user-recordable outgoing message, and an on-site service and support program. Retail price is \$1,895. Phone: (908) 359-8880.

**Fujitsu dex 80.** If some systems mentioned in this section are too much for your budget, you might consider the Fujitsu dex 80, which lists for \$999 and is widely discounted. The thermal-paper unit includes an automatic paper cutter, built-in phone, and selective rejection. The latter feature lets you program up to 50 numbers that the fax will not accept, so you can eliminate unwanted faxes. Phone: (800) 243-7046.

**Hitachi Hifax 110M.** If you're looking for a relatively low-cost thermal-paper fax that is adequate for light to moderate use, the Hifax 110M, priced at \$1,995, could fill the bill. It has enough basic memory to store 10 pages when you're out of paper. You can easily print the stored pages later. The unit also can forward incoming faxes to another machine at a different location, has a security mode, and permits automatic telephone/fax switching—a feature that lets the unit share a line with your telephone without the need for additional equipment. Memory can be expanded to accommodate 20 pages of storage. Phone: (404) 446-8820.

**Konica LP-3110F Plain Paper Facsimile System.** Konica has taken a slightly different approach to plain-paper faxing by packaging its Fax 500 and Fax 550 models with its newly released LP-3110 laser printer. This arrangement gives the user a choice: The incoming material can be produced on thermal fax paper or as a printout. Standard fax features include a 200-number automa-



## TECHNOLOGY

ic dialer, a 30-sheet automatic document feeder, custom headers, and batch transmission. The system also can be used as a copier and a laser printer. The price is not yet available. Phone: (203) 683-2222.

**Lanier LMT-1.** Lanier makes a number of fine thermal- and plain-paper fax machines, but one of its most intriguing products is a peripheral, the LMT-1, for upgrading old, low-end fax machines. This add-on device adds 1MB of memory—about 60 pages—to any fax machine, regardless of manufacturer. It also allows users to create confidential mailboxes for incoming faxes, screen incoming unwanted faxes, store up to 100 telephone numbers, forward incoming faxes to a machine at a remote location, and delay transmission of documents until times (such as after office hours) when phone rates are lower. List price is \$899. Phone: (800) 443-2948.

**Murata PCF 9.** The most advanced fax machine from Murata is the PCF 9, which includes the company's Facsimile Interface Processor (FIP). The FIP allows the thermal-paper PCF 9 to be connected to almost any PC, minicomputer, mainframe computer, or local-area computer network (LAN) and serve as a scanner, backup printer, and plain-paper fax (when the PC has an HP LaserJet-compatible laser printer attached). Basic fax features include 62 pages of internal memory, a 335-number automatic dialer, and a 50-page document feeder. Price is \$2,995. Phone: (214) 403-3300.

**Panasonic UF-300.** The UF-300 uses a thermal inkjet printer to turn out crisp faxes on plain paper. Its features include automatic reduction, secure transmission and reception, a 100-number automatic dialer, a 12-page memory, and remote service diagnostics. The unit performs smoothly and efficiently and can handle up to 20 sheets in its automatic document feeder. Plus, at \$2,495, this is about as inexpensive a plain-paper fax as you'll find anywhere. Phone: (800) 742-8086.

**Ricoh FAX2800L.** Ricoh's model 2800L also is one of the lowest-priced plain-paper faxes on the market, at \$3,995 list. Based on a laser-printer engine, the 2800L includes 17 pages of memory (which can be upgraded), an answering machine interface, a 30-page automatic document feeder, a 126-number automatic dialer, and a single cartridge replacement system for consumables. Plus, it has an optional PC interface, so it can be used as a laser printer and scanner. Phone: (800) 63-RICOH.

**Sanyo SF-80.** The SF-80 is a low-cost thermal-paper fax machine with plenty of useful features. It has an automatic

document feeder, automatic fax/telephone switching, halftone capability that lets you transmit photographs, and room for 20 autodial numbers. Transmission speed is 20 seconds per page. Price is \$929. Phone: (201) 440-9300.

**Sharp Full Color Facsimile.** In a technological breakthrough, Sharp has introduced the first full-color facsimile system, which is selling in Japan for the equivalent of about \$23,000 (the unit should be available in the U.S. this month). The desktop unit is fully compatible with conventional fax machines and uses Sharp's own color scanner and printing technology to produce high-quality color. A four-color sheet can be transmitted in about three minutes. This machine is not for everyone, but if



*Murata PCF 9 can serve as a scanner, backup printer, and plain-paper fax machine.*



*Panasonic UF-300 uses a thermal inkjet printer to turn out crisp faxes on plain paper.*

you need color faxography, this is the only place you can get it at this time. Phone: (201) 529-0397.

**Toshiba TF381S.** Toshiba's TF381S is loaded with high-end features but carries the relatively low price tag of \$3,995. The thermal-paper system can transmit documents at speeds as fast as six seconds a page and carries 2MB of standard memory. The large basic memory allows the system to store documents for later transmission—even while an incoming document is being re-

ceived. Its additional features include a 50-page document feeder, an automatic dialer, a programmable display, and usage billing. Support for a 16-level gray scale is included for enhanced photograph transmission. Phone: (714) 583-3512.

**Xerox Telecopier 7033.** For high-speed plain-paper copying, it's tough to beat Xerox's 7033. This unit can send and receive a business letter in seven seconds, has a 55-page memory (which can be upgraded to handle 2,400 pages), and has a port for connecting the 7033 to a personal computer. Designed for high-volume use, the unit retails for \$4,995 in its base configuration. Phone: (800) 362-8832.

### Typewriters Or Word Processors: Still A Matter Of Choice

Even though there seem to be fewer and fewer reasons for buying typewriters, the market for them is far from dead. For light chores, many companies prefer typewriters because of their ease of use and low cost, but some models rival personal computers in price and offer computerlike features.

In some instances, a personal word processor may be a better choice than a typewriter or a computer. A personal word processor is as compact as a typewriter and as portable as a laptop computer, and it blurs the line between PCs and typewriters.

**Panasonic KX-W1550.** This compact personal word processor includes a 16-characters-per-second daisy-wheel printer, word-processing software, and even spreadsheet capabilities. Easy to use and highly portable, the KX-W1550 has a 45,000-word thesaurus, a 63,000-word dictionary, mail merge, and much more. The suggested retail price of the unit is \$729.95. Phone: (800) 742-8086.

**Sharp PA-1410 Personal Word Processor.** Sharp's 1410, which lists for \$799, is an MS DOS compatible word processor that includes 50K of user memory, an 80-character by 16-line backlit liquid crystal display (LCD), and a 3 1/2-inch floppy-disk drive. The typewriter/printer unit churns out text at 15 characters per second with a bidirectional daisy-wheel print element. In addition, the unit's internal memory includes an 80,000-word spell checker and thesaurus and a full-function word processor. Phone: (201) 529-0397.

**Smith Corona XD 7700 Word Processing Typewriter.** This is Smith Corona's top-of-the-line model, which means it is loaded with features. There's a 2-line by 40-character display, a forms-



# How To Make Yourself Judgment Proof

**Lawsuit explosion in U.S. makes it mandatory to protect yourself from judgments caused by creditors, customers, patients, employees, the IRS, or even an ex-spouse**

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- The only ideal way to gain true freedom from debt. See page 58.
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- How to assure that a *prenuptial agreement* is a sound asset protection plan, not a giveaway program. See page 212.
- **Why asset protection is both 100% legal and smart.** See page 6.
- Three ways to create an installment plan creditors must accept. See page 58.
- How to legally shift wealth and income to younger members of the family. See page 158.
- Eight invaluable tips for judgment proofing your assets. See pages 11.
- Twenty harassment techniques you can stop creditors from using against you. See pages 53-54.
- *Debt settlement secrets.* Proven ways to reduce, settle and discharge present or potential liabilities on advantageous terms before they become a threat to your property. See pages 4-6.
- You can avoid bankruptcy forever if you meet one very important condition. See page 58.
- State-by-state report on what income is exempt from creditor claims. See pages 151-155.
- **The single most important action you must take to gain the cooperation of creditors.** See page 59.
- Seven crucial points in negotiating settlements with creditors. See page 60.
- Where to find competent professional assistance in dealing with creditors. See pages 61-62.
- A powerful sample letter which shows how to ask for extended payments with creditors. See page 77.
- **100% legal method of transferring assets to beat the IRS.** See pages 93-94.
- Model letter which can help you arrange an out-of-court settlement. See page 75.
- Three principle reasons to set up a trust. See page 157.

- How to stop repossession of personal property. See page 87.
- *Asset transfer secrets.* The two crucial steps that must be taken to avoid transfers of assets that in any way could be deemed fraudulent. See page 6.
- How to legally transfer your home to avoid a tax liability. See page 205.
- Why your creditors will approve your Chapter 13 plan in almost every case. See page 114.
- **Two ways forming a corporation can protect your assets.** See page 190.
- How to limit your personal liability and corporate guarantees. See page 210.
- Why creditors have eight major obstacles in going after an interest in a limited partnership. See page 189.
- The single most effective action you can take to immediately stop creditor harassment. See page 53.
- How to avoid a gift tax when conveying an asset to a trust. See page 212.
- Two possible disadvantages to using land trusts. See page 162.
- When your spouse and children should hold all the stock in a corporation. See page 210.
- Advantages of general and limited partnerships and how to use them to protect assets. See page 187.
- How to legally divide assets in a marriage through trusts so that the business owner's spouse becomes "judgment proof." See page 161.
- Limited partnerships can shield your interests from the reach of most creditors. See page 188.
- How to obtain a release from an IRS Notice of Levy. See page 91.
- **Using corporations to avoid personal liability.** See page 190.
- Why you should immediately file for a Homestead Exemption to protect your rights regardless of your financial condition. See page 145.
- When to consider using multiple corporations. See page 192.
- Answers to important questions about Chapter 13. See page 118.
- How to avoid IRS seizure of bank accounts. See page 203.
- When using joint bank accounts can be a very dangerous practice. See page 169.
- When filing separate tax returns rather than a joint return can be advantageous in protecting assets. See page 205.
- How to get IRS seizures released and your property back. See page 91.

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## TECHNOLOGY

layout feature for easy completion of preprinted forms, and a 20,000-character memory. Items in memory can be edited, printed, or recalled and stored. Plus, there are word-processing features such as block copy, move, delete, search-and-replace, and insert. And for those who need a bit of help spelling, there's a 75,000-word Spell-Right electronic dictionary that can be augmented with a 300-word personal dictionary. Price is \$429.99. Phone: (203) 972-1471.

**Swintec 640 Electronic Display Typewriter.** Swintec's 640 should help the company keep its position as a leader in the typewriter-sales field. This high-end model, priced at \$599, sports an adjustable 40-character LCD, 16K memory (expandable to 48K), 500-character correction memory, and computerlike features, including bidirectional search-and-replace, block copy/move/delete, and print. Standard features also include three-way centering, automatic boldface, continuous underline, and column layout. Options include an 80,000-word spell checker and a PC interface port. Phone: (201) 935-0115.

**Xerox 6010 Memorywriter.** With a list price of only \$895, the 6010 is at the low end of the Xerox line, but it still has plenty of electronic typing power. It comes with an automatic paper loader, a spell checker, and the ability to connect to computers via an optional interface. You can save formats (including line spacing and tab and margin settings) and take advantage of a 250-character correction ability and continuous underlining. Phone: (800) 362-8832.

### Remote Controls: Working Away From The Office

The design of today's office equipment is clearly driven by the needs and demands of the modern office. More and more, that means accommodating a diverse set of working conditions, including a nontraditional concept of what—or where—the office is.

The office of the 1990s will see a continuation of a trend that Mark Eppley, president of Traveling Software, calls "extended office computing." Simply put, extended office computing means the ability to do your work outside the standard office setting—in a hotel room, for example, or in a plane or a car, or wherever you find yourself.

Obviously, office products that combine versatility, mobility, and ease of use rank high on the list of anyone involved in extended office computing.

The following products have been chosen to give you a sampling of how you or your employees can pick up (literally) on

this trend. (See also "Small-Business Computing," on Page 32.)

**Atari Portfolio.** The approximately 11-ounce Portfolio includes five built-in programs (a Lotus-compatible spreadsheet, a text editor, an appointment calendar, a name-and-address directory, and a calculator), a DOS-compatible operating system, and 128K of RAM (expandable to 640K). Though the Portfolio won't run DOS applications, you can get the same essential capabilities through a library of add-in software and exchanging files with desktop PCs. The list price for Portfolio is about \$500, but it is available at some places for about \$249. Phone: (408) 745-2000.

**Casio B.O.S.S.** The latest version of this versatile organizer is the Executive



Smith Corona XD 7700 is loaded with word-processing features.



Swintec 640 sports computerlike features, including bidirectional search and replace.

B.O.S.S. (Business Organizer Scheduling System), also called the **SF-9500**. This model features a large display (32 characters by 6 lines) and has built-in programs for creating calendars, memos, and schedules, for sounding alarms, creating a business-card (name and address) database, determining world time, and much more in its 9-ounce package. A full—if small—standard typewriter (QWERTY) keyboard is included. Batteries will last about 75 hours. There's also a card slot that can

accommodate add-in software such as an expanded manager program or a powerful spreadsheet and can link the product to share data with desktop PCs. List price is \$299.95. Phone: (201) 361-5400.

**Motorola MicroTAC Digital Personal Communicator Telephone.** In the world of cellular phones, the biggest news is the smallest product: Motorola's beautifully designed MicroTAC phone. It packs all the features of clunkier cellular phones into a tiny package (13 1/2 cubic inches) that weighs a mere 10.7 ounces. Two batteries are available: A slimline model permits 30 minutes of continuous talking, and the regular battery offers 100 minutes of talking. Other features include a 120-number memory, LED phone-number display, call screening, and speed dialing. If you have put off buying a cellular phone because you didn't want to walk around with a shoebox-size unit, the Motorola could eliminate your reluctance. Versions are available for \$1,200 to \$2,495, depending on configuration. Phone: (708) 632-2841.

**Poqet PC.** Unlike the other organizers mentioned here, the Poqet is a full-fledged PC in a 1-pound package. The Poqet checks in as the smallest fully functional MS DOS computer on the market. It has an 80-character by 25-line display, supports CGA graphics, has a 77-key QWERTY keyboard, 512K of RAM, and uses an 80C88 processor. It is compatible with all MS DOS software and can run for about 100 hours on two AA nicad batteries. Yet a Poqet with all the fixings (the battery-operated disk drive, application software, modem cable, etc.) can easily run you well over \$2,000—priced for a personal information manager. Perhaps more vexing is the keyboard, which I found more frustrating than other organizer keyboards. It is just large enough that it seems as if you could touch-type, but it is too small to do so effectively. Phone: (408) 737-8100.

**Sharp Wizard OZ-8200 Electronic Organizer.** Sharp's Wizard series now features this new top-of-the-line model, which sports a spacious 128K memory (a 64K model, the **OZ-8000**, also is available). The new Wizard has a redesigned QWERTY keyboard and plenty of built-in functions, including an outline processor, business-card file, schedule maker (daily, weekly, and monthly), a memo function, and more. There also is a large library of software available on add-in cards. The 8200 can store 3,000 names and addresses, includes on-line help, can share data with PCs, weighs in at 10 ounces, and retails for only \$399.95. Phone: (800) 321-8877.



## PERSONNEL

# Avoid Pitfalls In Hiring, Firing

By Elliot H. Shaller

A Midwestern company fired a salesman because he purportedly failed to produce enough income. The salesman hired a private investigator to find out more about his termination. One of the salesman's former co-workers told the investigator the salesman was a "crook." A prospective employer of the salesman pressed a company official for details about the firing and was told, "I can't go into it."

When the prospective employer declined to hire the salesman, he sued his former employer for defamation. A jury awarded him \$600,000 in compensatory damages and \$1.3 million in punitive damages.

This case is just one of many examples that show how hiring and firing are fraught with legal difficulties for the unwary employer. A complex web of federal and state statutes and common-law doctrines severely restricts a manager's decisions and a company's actions. U.S. companies have been hit with hefty judgments in lawsuits by disgruntled applicants and terminated employees. The danger is real. The consequences can be expensive.

Basically, federal law bars employers from discriminating against employees or applicants on grounds of race, color, religion, national origin, sex, or age. A recently enacted law outlaws discrimination against the disabled as well. (See "Planning For The Disabled," *Nation's Business*, November 1990, Page 24.)

Employers also may not discriminate against applicants or employees on grounds of their membership in labor organizations or for engaging in "concerted activity" in regard to labor organizing.

Companies doing business with the federal government may face additional rules that prohibit discrimination against the disabled, and federal contractors generally must have affirmative-action plans to hire minorities.

The legal landscape in regard to personnel matters has become much more complex. For example, because of various evolving legal doctrines concerning the rights of applicants and employees,

an employer's freedom to hire and fire may be restricted by the wording of statements that were never intended to bind management. Lawsuits have been based on statements made in employee handbooks and in other written and oral expressions of personnel policies.

State laws, most of which are based on federal statutes, can be equally far-reaching. Yet an action that is lawful in one state may be unlawful in another.

*Here are tips for steering clear of legal hazards that can crop up in a firm's procedures for hiring and firing.*

hired. She sued and lost, but an appeals court reversed the trial court and ruled the employer had engaged in sex discrimination.

■ An employer lured a salesman away from a competing firm with inflated promises of future promotions and pay raises. When the company failed to make good on the promises, the employee complained to management and was dismissed. The employee sued for fraud



**In interviewing job candidates, don't ask them about personal matters such as ...**

The following cases illustrate how an employer, notwithstanding good intentions, can be vulnerable to large judgments as a result of hiring and firing practices.

■ During a job interview, an employer asked a female applicant about her earlier pregnancies, her marital status, her relationship with a company employee, the number of her children and whether they were legitimate, her child-care arrangements, and her future child-bearing plans. The applicant was not

and breach of contract, and he won a jury award of \$1 million in compensatory damages and \$9 million in punitive damages.

■ A transportation company conducted a post-accident drug test on one of its drivers. The testing physician reported a trace of methadone. The company's report read: "The drug-screening test was positive for methadone. Methadone is a drug that is often given to heroin addicts." The employee learned of the report and requested a second test,

*Elliot H. Shaller is a partner in the Washington, D.C., law firm of Dow, Lohnes & Albertson, where he specializes in employment law and litigation.*



## PERSONNEL

which showed the first test was a "false positive." But the company fired the employee anyway. In response to a government request for information, the company stated that "traces of methadone were present in the employee's system." The employee sued for defamation and won a \$200,000 judgment.

**H**ow does an employer hire and fire when personnel decisions seem to be so severely restricted by the current legal climate? How does an employer verify an applicant's credentials without becoming vulnerable to a lawsuit? How does an employer fire an unsatisfactory employee without later being found liable for discrimination, defamation, wrongful discharge, or breach of contract?

There are several relatively simple and inexpensive procedures that em-

To protect yourself from charges of discrimination, avoid all questions referring directly to an applicant's race, religion, age, sex, national origin, marital status, or sexual preference. Unless there is a good business reason, don't seek this information indirectly.

Employers may lawfully obtain information about sex, race, color, and national origin if the purpose is to comply with certain federal record-keeping rules and as long as the information is not used in the hiring process. Employers who request such details should do so on a separate form that is not seen by the interviewer or hiring manager.

Don't ask applicants to submit photographs or disclose physical characteristics that may indicate race or national origin. Avoid asking for maiden names, which may convey national origin, or for information on marriage or children.

Don't ask an applicant about personal finances such as credit rating, assets, or even home or car ownership. If the job requires a car, just ask if the applicant has use of a reliable vehicle.

Questions about religion should not be asked. If you need to know if religious observances might prevent the applicant from working on certain days or at certain times, ask the applicant if he or she could work at those times, or explain the job's normal shifts and overtime requirements and ask if there would be problems working those shifts.

Don't ask about political affiliations (unlawful in some states) or about membership in voluntary organizations or clubs (which could convey an interest in a person's race or national origin). You may ask about membership in professional or technical organizations.

Never ask about union membership or



... cars they own, family status, or if religion rules out off-hours work—or you could lose a discrimination suit.

ployers may lawfully use to protect themselves. Here are some specifics:

#### Hiring

Generally, avoid questions unrelated to a legitimate business concern. Train recruiters and interviewers in appropriate hiring procedures. Ask applicants to sign forms permitting inquiries to former employers and personal references. Then request written references, document background checks, and file all documents received from all sources.

Steer clear of questions about whether applicants own or rent their homes. Avoid questions about previous residences, because they may convey concern about racial, economic, or ethnic status. It's permissible to ask for current addresses because that information is needed for correspondence.

Questions about whether applicants can speak, write, or read foreign languages might imply interest in national origin. Unless the job requires these special skills, avoid these questions.

an applicant's opinion about labor unions.

Avoid questions about previous claims for workers' compensation. This is a violation of some state laws.

Never ask an applicant about arrests. You may ask about criminal convictions, but be sure to indicate that convictions are not an absolute bar to employment. Explain that they will be considered only in relation to specific job requirements.

For jobs involving safety, such as op-



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## PERSONNEL

erating a vehicle or machinery, or for security jobs, consider conducting a criminal-records check and a drug test. Drug tests are considered necessary by many businesses, but a company must be extremely cautious with respect to any such testing. Depending on the type of job, the jurisdiction, and the type of drug testing involved (for example, pre-employment or random testing), legal restrictions may apply. It is a good idea to consult with labor counsel before implementing drug testing.

Before conducting any medical tests, including drug tests, an employer should, at the very least, obtain the applicant's written consent and release from liability. Use highly qualified labs. A false positive on a drug test can be an expensive mistake. If a test is positive, give the employee or applicant the opportunity to explain the results, and order a second test.

Always keep the results of drug tests confidential.

Condition any offer of employment on completion of all screening, verification, and drug tests.

Avoid unrealistic or overly optimistic statements regarding career opportunities, job duties, or salary. Refrain from describing employment as "indefinite,

lifetime, continued, or permanent."

Also, review your company's help-wanted ads to make sure they contain no terminology that may suggest discriminatory intent. Words such as "waitress," "salesman," or "youthful executive" can be used as ammunition in a discrimination suit.

Avoid asking a woman applicant if she is pregnant or plans to become so, because this may lead to a claim of discrimination based on sex or pregnancy. It is permissible to tell a job applicant that the company is seeking employees who will be able to remain in the job continuously for some time and to ask the applicants whether they have any problem meeting this requirement. But if you tell this to female applicants for a particular position, it is critical that you have the same discussion with male applicants.

### Firing

Companies need to show at least as much care—if not more—in handling terminations as they show in hiring.

To avoid charges of discrimination or favoritism, handle all termination actions consistently.

Don't make snap decisions about terminating an employee. In some cases,

suspension may be a smarter move. It will give you time to gather information and make an informed decision. If the employee is then reinstated, possibly with back pay, the company avoids liability.

Before you fire an employee, assess the possible legal exposure. Consider state, local, and federal laws that may apply to the situation. Find out if the employee is covered by an employment contract, such as a collective bargaining agreement or individual agreement. Also, determine if there may be an implied or oral contract. Remember, employee handbooks, personnel policy statements, and oral promises may give rise to implied contracts. If you have any question about legal restrictions, consult a lawyer.

Check the employee's work-history file, and review the circumstances surrounding the proposed termination. Make sure there is sufficient documentation of the problems giving rise to termination.

If the termination is because of the worker's performance, make sure the employee was adequately warned and given a chance to improve.

When you fire an employee, it's a good idea to have at least two managers present. This ensures a witness if any questions of impropriety arise later. Explain the termination in a calm, factual manner, and provide information about available benefits. Avoid getting into a debate with the employee. Afterward, document the substance of the discussion.

If the firing could in any way be challenged legally or may expose the company to liability, consider giving an employee an alternative to firing, such as the opportunity to resign.

Have a policy in place for handling requests for references regarding your former employees. To avoid trouble, consider these measures: Channel all requests to your personnel department or, in smaller organizations, to a particular individual. Never give information over the phone, and don't answer questions regarding the reason for termination or whether the employee is eligible for re-hire.

Given our legal system, there are certainly no guarantees that an employer will never be sued over a personnel matter. Even so, a well-conceived and executed company policy on hiring and firing can reduce the number of such lawsuits and improve the quality of the decisions that enter into accepting a job applicant or terminating an employee.

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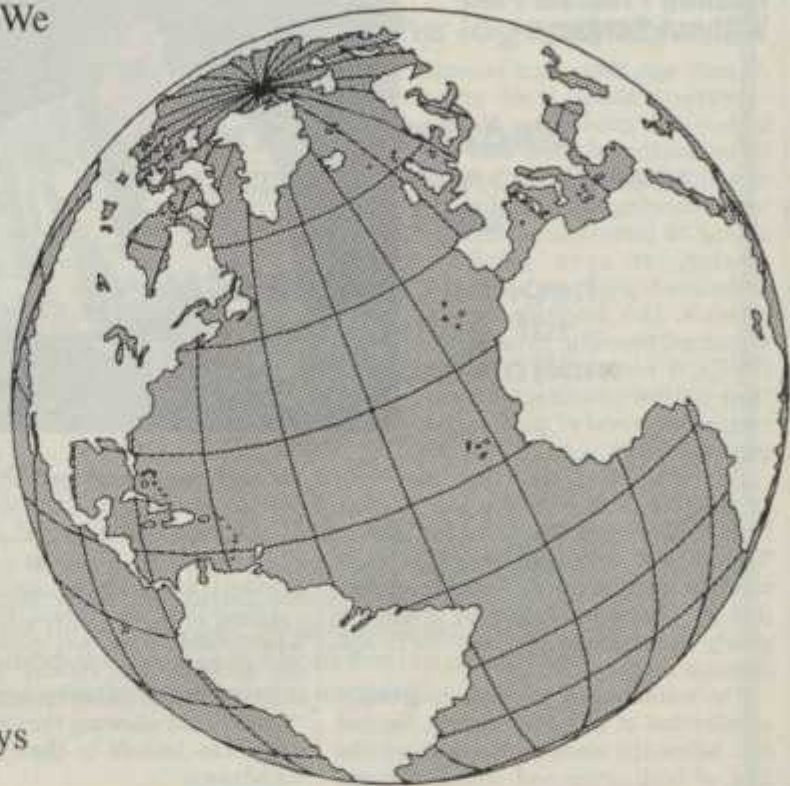


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# To Your Health

*Managing well includes managing your own health; here is advice to help you do that better.*

By Marcia J. Pear

## Healing Prostate Pain Without Surgery

As men age, they often become concerned about their prostates—with good cause. Nearly three-fourths of men over 50 develop some of the symptoms—ranging from mildly annoying to inconvenient, embarrassing, or even painful—associated with an enlarged prostate. This condition, known as benign prostatic hyperplasia (BPH), is responsible for more than 400,000 prostatectomies—surgical removal of part of the prostate—each year.

By comparison, prostate cancer, a completely different disease, strikes fewer than 100,000 men annually. Though less common than BPH, it is also far more serious. For this reason, doctors advise men over 50 to have a yearly rectal exam for both BPH and prostate cancer.

The walnut-sized prostate is actually a collection of 30 to 50 glands, located just below the bladder. It regulates the flow of both urine and semen through the urethra, or urinary tract.

Although some growth of the prostate after middle age is considered normal, problems arise when the enlargement obstructs the urethra, which can lead to kidney and bladder infections, and, at the most advanced stages, death. Until recently, the best that doctors could do was to monitor symptoms and operate when BPH became severe.

Now several promising alternatives may suspend the need for surgery:

**Balloon Dilation.** Dr. Lester Klein, a urologist with the Scripps Clinic in La Jolla, Calif., and the designer of a balloon device, explains the basis of the procedure: "Think of your prostate as a funnel. As the funnel grows, it becomes more and more difficult to urinate, because the neck of the funnel is being squeezed. Pressure builds up in your



PHOTO: © PHIL CANTOR—UNIPHOTO

*For most men over 50, prostate problems are a fact of life.*

bladder, like steam in a kettle."

Using local anesthesia, Klein threads a tiny, deflated balloon up the urethra to the prostate and inflates it briefly at high pressure, thereby stretching the "funnel" and allowing the "steam" to escape. The balloon is then deflated and withdrawn.

**Shrinking.** Another treatment is the use of Proscar, a drug that shrinks the prostate without apparent loss of libido or potency. This is welcome news for BPH sufferers, since loss of potency is a possible side effect of prostatectomy and other treatments. Proscar works by preventing the conversion of the male sex hormone testosterone into a hormone that causes prostate enlargement. The shrinking can take several months.

**Blocking.** A related drug, known generically as terazosin and marketed under the brand name Hytrin, has long been used to treat high blood pressure. Described as an "alpha blocker," terazosin works to relax the smooth-muscle areas that line the urethra, which can go into spasms as the prostate enlarges. But terazosin has its drawbacks: By lowering normal blood pressure, it can cause dizziness and fatigue.

Dr. Perinchery Narayan, chief of urology at the San Francisco Veterans Administration Medical Center, has conducted extensive tests on Proscar and terazosin and favors use of these drugs,

provided they are prescribed with care. "Although Proscar doesn't inhibit sex drive," he says, "it can reduce seminal secretions, so I would not recommend it for a man who is still interested in conceiving children."

**Hyperthermia.** A fourth procedure, also highly experimental, is hyperthermia, which involves inserting a heating probe into the urethra and bringing the probe to a temperature of 113 degrees Fahrenheit, in order to shrink the enlarged tissue.

The device is constructed so that it heats only the affected area, leaving the surrounding tissue cool.

Last fall, the American Urological Association (AUA) launched a major clinical study to compare watchful waiting with surgery, balloon dilation, and alpha blockers, in both randomized (luck of the draw) and preferential (patient choice) trials. The pilot phase is under way at five university medical centers and includes 250 men.

Although Dr. H. Logan Holtgrewe of the AUA is optimistic about the outcome, he cautions that any treatment method has "an enormous placebo effect [that is, patients report feeling better no matter what treatment is used]. This can really confound any comparison of viable treatments."

Klein, the proponent of balloon dilation, concurs, adding that "about half the patients I see need no treatment at all; they're mainly seeking reassurance that it's not something more serious." He suggests that the most important barometer in evaluating treatment options should be a patient's own perception of discomfort.

He offers an example: "I had a patient with BPH who sold shoes. Although nature called every 45 minutes, he didn't perceive it as a problem. After he finished with a customer, he simply went to the back of the store to use the facilities. A psychiatrist came in with identical symptoms, but was extremely upset. Each of his sessions with patients lasted an hour, so he was in agony all day long."

Marcia J. Pear is a free-lance writer specializing in health issues and principal of Pear Communications, a San Francisco marketing communications firm.



# Mary Kingsley stared down a leopard.

Knowing it had met its match, the jungle beast turned tail and obeyed Kingsley's command to "Go home, you fool." Rudyard Kipling said of African explorer Kingsley, "Being human, she must have been afraid of something. But one never found out what it was."

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- **POPE JOAN**, the legendary female Pope.
- **FANNY MENDELSSOHN**, perhaps a better composer than brother Felix.
- **MARY SURRAT**, hanged, perhaps wrongly, for Lincoln's assassination.

You'll meet a hundred women in all, from Shakespeare's "Dark Lady" to Chicago's Mrs. O'Leary; from Anna Jarvis, who thought up Mother's Day (and regretted it), to Mother Jones, stalwart union organizer. Malcolm Forbes, whose love of little-known facts led to the best-selling *They Went That-a-Way* and *What Happened to Their Kids?*, chronicles the lives of these remarkable women in a book that is a pleasure to browse in and hard to put down, and as enlightening as it is inspiring.



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# Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

## AQUARIUMS

### Going Swimmingly

I am very interested in starting a business for the stocking, care, and maintenance of private and commercial fish aquariums. Who or what might provide me with some assistance?

D.Y.K., Rancho Mirage, Calif.

Ray Hunziker, editor of *Tropical Fish Hobbyist*, a monthly magazine, says he would be pleased to talk with you about



ILLUSTRATIONS: DAVID ALLEN

various types of fish and about aquarium-maintenance techniques. He can be reached at *Tropical Fish Hobbyist*, 211 W. Sylvania Ave., Neptune, N.J. 07753; (201) 988-8400.

*Pet Age*, another monthly magazine, offers information on the retailing aspects of a pet business, including industry suppliers, wholesalers, and distributors of pet supplies. The magazine is free for those in the pet industry and costs \$25 a year for those who are not. To obtain an application for a free subscription, call the magazine, in Chicago, at (312) 663-4040.

## ENERGY

### Tire Power

We want to burn used tires—without causing pollution—to generate electricity for rural areas. Can you give us the address of the Environmental Protection Agency?

F.C. Jr., El Paso, Texas

The Office of the Small Business Ombudsman at the Environmental Protection Agency (EPA) is at 401 M Street, S.W., A-149C, Washington, D.C. 20460.

## ORGANIZATIONS

### Proper Channels

We are a small company specializing in furnishing and installing continuous aluminum gutters and downspouts. Are there any trade associations specifically for our type of business?

J.D., Columbus, Ohio

To our knowledge, there is no trade association that represents only those businesses specializing in aluminum gutters and downspouts.

For information on the aluminum-products industry, however, you can contact the Aluminum Association, 900 19th St., N.W., Suite 300, Washington, D.C. 20006-2168; (202) 862-5100.

## CAPITAL

### Uncle Sam's Pockets

How do I get information on obtaining venture capital that the federal government offers for starting small businesses?

P.I.C., Cincinnati

The Small Business Administration can give you information on small-business investment companies (SBICs) and minority-enterprise small-business investment companies.

These SBICs are private capitalization companies that are licensed, regulated, and funded by the federal government. They provide venture capital in the form of equity financing, long-term loans, and management services to small businesses. For information on procedures for obtaining such assistance, call the Small Business Administration's Office of Finance and Investment at (202) 653-6848.

The phone number is (703) 557-1938.

The office helps small businesses understand and comply with environmental regulations, and it facilitates communication between the EPA and small businesses.

Your plan to develop an alternative energy source appears to be in keeping with the growing trend toward environment-oriented start-up companies in the United States. For more information, see "From The Ground Up," on Page 39 of the January *Nation's Business*.

## TRANSPORTATION

### The Class Of '57

Last June I purchased my "dream" car, a classic 1957 Chevy 4-door sedan. People are interested in using the car for weddings. What is the going rate for classic-car rentals, and do I need special insurance?

R.J.G., Canandaigua, N.Y.

Collector Car Appraisers International, a group of classic-car appraisers, says that many classic-car owners these days are renting their vehicles to friends, family members, and business acquaintances for use at special occasions such as weddings, proms, graduations, birthday parties, wedding anniversaries, and even tailgate parties at football games.

The rates for such rentals depend on factors such as the hours the car would be rented, the cost of insurance, the driver, and how the car would be used.



Once you rent your car to earn money, you have started a business and must have a commercial automobile insurance policy, says State Farm Insurance agent Jimmy Podoley, in Washington, D.C. A commercial policy covers both business and personal use of the car. The premium would depend on the car's value, how often it is used, and where it is operated. Podoley notes too that the premium is tax-deductible to the extent that you use the vehicle for business. For more information, contact your local insurance agent.

For help on appraisals or to establish a connection with the classic-car community, write or call Collector Car Appraisers International at 24 Myrtle Ave., Buffalo, N.Y. 14204; (716) 855-1931.



## RETAILING

## Bulk Sales

I want to open a clothing store for people with athletic physiques, such as body builders or football players. Do you know of any manufacturers of such clothing?

*C.J., Hastings, Neb.*

There is no category of clothing exclusively for muscular people. However, you might find it helpful to contact the National Sporting Goods Association for free information on suppliers and manufacturers of athletic clothing. The association can give you the names and addresses of its members whose products might be of interest to you.

You can write or call the National Sporting Goods Association at Lake Center Plaza Building, 1699 Wall St., Mount Prospect, Ill. 60056; (708) 439-4000.

## Inflation Strategy

My friend and I are interested in opening a bubble-gum kiosk in a local mall. We need information on manufacturers and distributors of bubble gum.

*B.J.W., Arlington, Texas*

Selling chewing gum is a growth industry, says Bob Waller, assistant secretary of the National Association of Chewing Gum Manufacturers. Waller says statistics from the small, highly competitive industry show that U.S. sales of chewing gum totaled \$1.2 billion in 1989, up from \$1.1 billion in 1988. The strength of gum sales is attributed in part to the fact that many people who have quit smoking have turned to chewing gum.



The association represents nine U.S.-based chewing-gum manufacturers; some also make bubble gum. Waller says you must contact each maker individually for bubble-gum information. For names and addresses of the association's members, write to Waller at the National Association of Chewing Gum Manufacturers, 2 Greentree Centre, Suite 225, Marlton, N.J. 08053.

## CRAFTS

## Hooks And Yarns

My wife is interested in starting a crochet shop. Where do we go for yarns and hooks?

*T.J., McGrath, Alaska*

"Starting Out Right," a \$15 kit from the National Needlework Association, has start-up pointers, market analysis, in-



dustry statistics, and names and phone numbers of distributors and suppliers that take part in the association's annual trade show. To get the kit, send a letter and check to the National Needlework Association, 650 Danbury Road, Ridgefield, Conn. 06877.

## DIRECT MAIL

## First Words

I need some information on how to get started in direct mail.

*A.H., Manchester, N.H.*

The Direct Marketing Association has a 22-page guide of books, catalogs, and lists for direct marketing. The subjects include start-up, telemarketing, television direct response, statistics, and research. Contact the association at 11 W. 42nd St., New York, N.Y. 10036; (212) 689-4977.

## CLARIFICATION

## Lists Of Craft Shows

The American Society of Artists, mentioned in the January *Direct Line*, no longer offers a free list of craft shows nationwide. Interested artists and crafts people must join the association to obtain such information. An associate membership costs \$30, and a full membership is \$70. For more information, contact the association at (708) 991-4748.

## HOW TO ASK

Have a business-related question? Send your typewritten query to *Direct Line*, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

## THIS MONTH'S MOST-ASKED QUESTION

## Achieving Merchant Status

Several readers have written lately to ask why it is hard for direct-marketing and home-based companies to qualify for merchant status with their banks' major credit-card services.

The reason is risk, bankers say—the risk of having to pay for others' fraud or for the obligations of a firm that has gone out of business.

Merchant status means that the business's customers can charge their purchases. The bank in effect is trusting the business to make good on any product or service it offers for purchase through a major credit card. If a purchaser is not satisfied and demands a refund, and if the business

has closed up shop, the merchant's issuing bank is responsible for paying the dissatisfied customer.

An officer at a large Virginia bank says her company is liable for refunding a customer's money for up to six months after the purchase if the merchant has closed the business, and she adds that many home-based ventures are "gone in six months." She says her bank has denied merchant status to businesses considered likely to "have trouble fulfilling orders. The bank would suffer the loss where a credit card is involved." Firms denied merchant status have included service-based companies, undercapitalized firms, and those with weak product lines.

An official of a Montgomery, Ala., bank says her company generally considers mail-order, telemarketing, and home-based merchants too risky for merchant status; a firm must have at least a storefront to qualify. She cites problems such as "stolen credit cards and multiple charge-backs." Charge-backs occur when a card holder denies or disputes a charge listed on a bill. The merchant's bank takes the loss on the disputed charge if it is not resolved.

A small firm that wants to obtain such credit should establish a solid relationship with a local bank. "Make an effort to help your banker get to know your business," says Jeanette Wong, a Washington, D.C., banker. And if your bank is a smaller institution, you are more likely to get to know most if not all the bank officers. They in turn will get to know you as an individual and not just as a customer number. The result could be a greater willingness by the bank to give you merchant status with a major credit-card company.





# For Your Tax File

*Tips on timely filing and other matters you need to know to keep taxes from overtaxing you.*

By Albert B. Ellentuck

## FILING DEADLINES

### The Proof Is In The Mailing

When money is tight, as it is these days, many taxpayers file at the last minute. And in such times, questions about late filing come up more frequently.

If the Internal Revenue Service received the return, there usually is no problem. The postmark on the envelope in the file at the IRS determines the date of filing. In other words, if the return is postmarked no later than the due date, it is filed on time.

But when the IRS claims it never received the return, and when there is no postmark in the file, you can find it hard to prove timely filing.

In a recent case, an estate-tax return was filed on March 19, three days before its March 22 due date. The return was mailed in Easton, Minn., at a one-room post office staffed by one Postal Service clerk. The clerk testified that she remembered postmarking the particular envelope and placing it in the outgoing mail on March 19.

The IRS claimed it never received the return. The agency argued that the law requires either actual delivery or proof of delivery. But the court held that the return was delivered, since the proof of a properly mailed letter created a presumption that the letter was delivered and was actually received by the IRS. It was the clerk's testimony that convinced the court that the return was properly mailed. Moreover, the postmark date was considered the date it was received by the IRS.

Keep in mind that the case law on this issue is not settled, and other courts could decide otherwise. Moreover, how many of us can mail our returns in a one-clerk postal facility and have that clerk remember us?

It's a good idea to use registered or certified mail; the letter will be considered delivered on the day it is registered. And save your return receipts. ■



Tax specialist Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

## INCOME

### Frequent-Flier Awards Taxable?

Many business people and employees are enrolled in frequent-flier awards programs offered by airlines. Certain rental-car companies and hotels also now offer frequent-user programs.

In some instances, redemption of awards can pose a tax problem.



Hotels' and airlines' frequent-user awards may be taxable.

If the awards are for personal use—that is, you personally paid for the tickets, rental cars, or hotels—there is no potential problem. But if you receive the awards as an employee for services for which you did not originally pay—or for which you paid and were reimbursed—you have received something of value at no cost to you.

Can these awards be considered taxable income? Yes, they are taxable—technically. And for years the Internal Revenue Service has tried to develop regulations to tax such income. But this could be an administrative nightmare for the IRS. The amounts in question are relatively small, and they are almost impossible to track down.

Recently the IRS put this regulation project on a back burner. That's good news for those who collect frequent-flier awards; they can breathe easier for now and probably for a long time to come. ■

## BUSINESS STRUCTURES

### S Corporations Losing Their Glitter

The S corporation, a type of business structure favored by many small firms, is losing some of its appeal. These closely held corporations are generally taxed like partnerships—with no tax at the corporate level.

A major advantage of S-corporation status under the old law was the spread between the top corporate rate of 34 percent and the top individual rate for most taxpayers of 28 percent. (For some individuals, of course, the spread was much narrower because their top rate could balloon to 33 percent on a portion of income.) Under the new law, however, with the top individual rate of 31 percent now possibly rising to an effective rate of 33 or 34 percent for some taxpayers, the spread has shrunk considerably.

In addition, proposed new IRS regulations may make it harder for small firms to maintain S status. An S corporation may have only one class of stock. The proposed regulations would disqualify an S corporation if its one class of stock could be treated like two classes. This could arise through unequal distributions to different stockholders, certain stock options, and debt without a reasonable rate of interest. Different voting rights are acceptable, however. ■

## LOANS

### Personal Use Of Company Cash

Some small-business people tend to treat the cash in their businesses and the cash in their personal bank accounts as one and the same. But this can cause tax problems.

If the business is in a corporate form, the Internal Revenue Service can treat the personal use of corporate funds as taxable dividends.

You can avoid dividend treatment if the transfers are properly set up as loans.

To make certain that such transfers are handled in this manner, you should use a formal note with a fixed payment date or payment schedule and a market rate of interest. In addition, be sure to make those interest and principal payments on time. ■



# It's Your Money

*A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.*

By Peter Weaver

## AUTOMOBILES

### Four-Wheel Drive: Do You Need It?

You have a recurring nightmare: getting stuck in mud or snow on some deserted, off-the-road trail. If you do that kind of driving, you may want one of those sporty four-wheel-drive wagons that can, as the advertising says, "take you there and bring you back." Pat Goss, the expert mechanic on "Motor Week," a PBS television show, recommends that you pay extra for a limited-slip differential, which links all the drive wheels so they work together. Otherwise, he says, "you end up having, in essence, two-wheel drive—one set of wheels spins, the other doesn't." That can negate the whole purpose of four-wheel drive, which is supposed to multiply the car's traction.

If you never leave paved roads, however, but you want the extra traction of four-wheel drive, you should look to the various lines of regular cars and vans that now offer it, and the investment can make excellent sense. Many such vehicles, Goss explains, "can be ordered with four-wheel drive plus limited-slip differential as standard equipment." That way, you get full-time four-wheel control for better traction on slippery pavement and better cornering.

Paul Lienert, Detroit-based editor of *Automotive Industries' Insider*, says, "If you don't need the capability of a truck, you can get a vehicle that meets your needs with four-wheel drive as an option." Lienert says four-wheel drive makes good sense in northern climates, particularly in rural areas.

The four-wheel-drive, limited-slip package can cost \$1,200 to \$2,500 more than standard drive, Goss says, "but you're getting something that's much



PHOTO: GLOEL BALDWIN—THE STOCK MARKET

*Four-wheel-drive vehicles can be handy on and off the road.*

more useful, because it provides better performance and a safer ride day in and day out."

One manufacturer, Nissan, has come out with a limited-slip package for its front-wheel-drive Sentra SER and Stanza GXE cars.

"This brings performance close to that of a four-wheel-drive vehicle," Goss says.

Front-wheel drive has always had better traction than rear-wheel drive, but now some luxury cars offer rear-wheel drive with limited-slip differential, for around \$100 to \$150 extra. "It's not quite as good as having it on a front-wheel-drive car," Goss says, "but it's close."

Lincoln, Cadillac, Mercedes, and a few other luxury-car manufacturers are offering electronic traction control for two-wheel-drive cars, Goss says; electronic control, he continues, "is more sophisticated [and more expensive] and has a significant effect on traction."

The upshot: Look for cars and vans with much better handling capabilities, at better prices, as the traction war heats up.

## SECURITIES

### Sophisticated Investors Turn To . . . Savings Bonds?

Series EE savings bonds are not exciting. You won't hear about them at cocktail parties. Most financial planners and stockbrokers shun them.

But more and more sophisticated investors—and some planners who are paid on a fixed-fee basis (not commissions)—think they're a solid long-term investment recommendation in these turbulent times.

Currently the bonds are paying 7.19 percent if you hold them five years or longer. The fluctuating market rate equals 85 percent of the average yield on five-year Treasury marketable securities during the time the bond is held and is recalculated every May 1 and Nov. 1. There's also a guaranteed minimum rate of 6 percent.

Some investors buy and keep savings bonds for additional retirement funds

because they've already made maximum payments into Individual Retirement Account, Keogh, or 401(k) investments.

Series EE bonds let you defer paying a tax on the computed income until you start taking money out, and you never have to pay state or local taxes.

When you are retired, you may want to convert Series EE bonds into Series HH bonds, which pay a fixed rate of 6 percent. You can thus draw out regular income while continuing to defer taxes on the interest already earned on the EE bonds. You have to pay federal income tax on annual HH bond income, but no state or local tax.

Series EE savings bonds are absolutely tax-free for parents who eventually use them exclusively to pay for children's college tuition and fees. There are some income limitations.

Series EE and HH savings bonds can be purchased from local banks free of commission charges.



*Peter Weaver is a Washington-based columnist on personal finance.*



## INVESTING

## Taming The Stock Market: Dollar-Cost Averaging

With the stock market bucking up and down like a bronco, you may be watching the show from the sidelines instead of trying to ride the wild beast.

"This could be a mistake," says Sheldon Jacobs, publisher of *The Handbook For No-Load Fund Investors*, who believes now is the perfect time to practice "dollar-cost averaging." When the market is jittery on the downside, Jacobs explains, "it actually pays to keep on investing a specific amount of money every month."

What dollar-cost averaging does, Jacobs says, "is provide a mechanism that forces you to buy when the market is low." He gives this example, using a mutual fund's regular, monthly investment plan:

"Assume that both the market and your fund decline, then return to their original levels. You've been investing every month. In the first month, you bought 10 shares at \$10 each. The next month, the price declined to \$9, so your \$100 purchased 11.1 shares.

"In succeeding months," Jacobs continues, "the price dipped still lower, and your \$100 bought even more shares. Then the market turned up. As the price gradually returned to \$10, you were



PHOTO: T. MICHAEL KEZA

**Steady investing can pay off handsomely in a volatile market.**

buying fewer and fewer shares. In six months, you'd spent \$600 and owned 81.5 shares.

"Your average cost: \$8.59 a share. With the shares again worth \$10, your profit was 16 percent."

If the market keeps going up, you actually make less money than you would if it were bouncing up and down. The more volatile the market, the more you stand to make.

Dollar-cost averaging also works for people who receive a lump sum from a pension payout, insurance, inheritance, or whatever.

"You put the money in a money-market fund," Jacobs says, "and each month transfer a specific portion into a stock fund."

What kind of funds are best for dollar-cost averaging? Jacobs likes no-load (no sales commission), aggressive-growth funds for younger investors and growth or growth-income funds for older ones.

And remember, with dollar-cost averaging, you must invest for the long haul—the same amount every month, year after year. You must resist the temptation to tinker with the amount you invest as the market rises and falls. Slow but steady wins the race.

You can get *The Handbook For No-Load Fund Investors* by sending \$42 to No-Load Fund Investor, P.O. Box 283, Hastings-On-Hudson, N.Y. 10706. Or you can call (800) 252-2042.

The handbook's 500-plus pages list some 1,200 no-load and low-load mutual funds by category, performance, and strategic uses.

## INSURANCE

## Long-Term-Care Coverage As Inheritance Insurance

If you have elderly parents, you may be worried about the possibility of nursing-home confinement at some future date. And you may have already discovered that the cost of long-term care in a nursing home currently runs from \$35,000 to \$50,000 a year and keeps going up at a 10 percent annual clip.

Two, three, or four years in a nursing home could wipe out most, if not all, of the family estate. For that reason, some financial planners and family legal counselors are checking into the purchase of long-term-care (LTC) policies.

"Long-term-care insurance is geared for someone who wants to protect assets for someone else," says Susan Polniaszek, health-insurance analyst with the United Seniors Health Cooperative, a nonprofit organization in Washington, D.C.

This type of insurance, which is relatively new, pays from \$50 to \$150 a day for as many days as you want to cover, running from a minimum of one year on out to four, five, six years, and beyond.

On the surface, it looks like a good deal. You buy insurance that promises to cover most of the bills for your parents if they ever have to go to a nursing home. But underneath the promise there are many significant restrictions

and potential complications you have to ferret out before you or your parents consider buying a specific policy. Coverage can be expensive, costing thousands of dollars a year.

Obviously, the younger the parent when the policy is purchased, the lower the cost. But, as Polniaszek says, "if you lock in a lower price for someone in their 50s, you'll be paying premiums for a long time." Polniaszek and other health-care advisers recommend considering LTC insurance when a parent is in the mid-60s on up to the mid-70s.

"The main thing you want to know about the policy itself," says Polniaszek, "is what are the restrictions on obtaining benefits when you need them."

The best type of policy, she says, pays for custodial care, based on the beneficiary's need for assistance with what are called the ADLs—the activities of daily living. This includes such things as eating, bathing, and using the bathroom.

If someone needs help with three or more of these ADLs, the best type of policy will authorize benefit payments. Alzheimer's disease and other "cognitive" illnesses will also be covered.

Unfortunately, many policies won't pay unless the beneficiary's admission to a nursing home is certified as "medically necessary." While this type of coverage will usually pay for someone with Alzheimer's disease, it may exclude people

who only need help with daily activities.

"Old age is not a disease," says Polniaszek. "It is not a medical condition. So this type of policy won't cover the majority of seniors, who just need custodial care."

Some policies cover in-home care to pay for nurses, homemakers, and others who come in on a regular basis. If there is a spouse, a relative, or a friend available to supervise and supplement home care, it may be worth considering as an extra.

A couple of other major items to check out before you buy:

■ **Length of coverage.** United Seniors says two years should be the minimum, and, for extra protection, you might want a policy that lasts four years (confinement past three years is relatively rare).

■ **Waiting period.** Benefits can start as soon as someone enters a nursing home or can start up to 100 days later. The 100-day wait makes a policy much less expensive. Consider something between 20 and 100 days.

LTC insurance is costly and complicated. You can get much more specific information from *Long-Term Care—A Dollar and Sense Guide*, compiled by Susan Polniaszek, by sending \$10 to United Seniors Health Cooperative, 1331 H Street, N.W., Suite 500, Washington, D.C. 20005.



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- b) Work less diligently
- c) Maintain my current work levels

**3.** To meet higher tax obligations, I would: (Check all that apply)

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- c) Take greater advantage of tax shelters
- d) Make no changes in managing my finances

**4.** Taxing currently untaxed employee benefits would: (Check all that apply)

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# Franchising

*Finding the right candidates to become franchisees can be a search for team players.*

By Meg Whittemore

## An Inexact Science



PHOTO: CRAIG PETERSON

*Choose carefully, says auto tune-up franchisor Donald Ervin, right.*

Money and managerial experience are no longer enough to make the grade as a franchisee, according to many franchisors. They have found that franchisees who brought only an entrepreneurial spirit, some capital, and business know-how to a franchise have often proved troublesome—wanting to change the system or run the business their own way, for example, or selling their business before the end of the contract.

In evaluating candidates who want to buy franchises, some franchisors are now seeking specific personality traits.

"We must choose with more care," says Donald Ervin, chairman of Precision Tune, Inc., an automobile tune-up franchise based in Sterling, Va. "I look for traits that go beyond work experience and adequate capital."

Candidates should not have "that 100-percent entrepreneurial spirit," says Ervin. True entrepreneurs are used to doing things their own way, he says, and "a franchisor needs someone who can be a team player and follow the system."

Richard Nicotra, chairman of Everything Yogurt, agrees. "The franchisee who doesn't want to play by the rules spells trouble for the franchisor," he says. Also, he looks for people who share

his beliefs on diet, fitness, and offering a healthful menu. "It is so important to have a person who believes in the [franchise] concept and believes in what they are selling," says Nicotra.

Everything Yogurt, headquartered in Staten Island, N.Y., sells yogurt, pita bread sandwiches, quiche, salads, fruit shakes, and fresh-fruit cups. The system has more than 300 locations in 32 states.

"Choosing a good franchisee is not an exact science," says Nicotra. "A lot of it is a gut reaction and a feeling that someone believes that a franchise is the best way to go."

Ervin looks for what he calls the "creative frustration" in a prospect. "Good franchisees come out of the uneasiness that develops when they want to be doing something other than the 9-to-5 grind," he says. One sign of that uneasiness is if the prospect has hobbies. "I like to see that trait in a potential franchisee because it means that their mind is active," says Ervin.

Precision Tune prefers owner-operators as franchisees for its 540 franchises. "Our franchisees tend to be a little older, more mature, and very knowledgeable about the risk they are taking," says Ervin.

James Cavanaugh, president of Jani-King International, Inc., looks for the franchisee with some independence. "Most of our franchisees do not come from a business background," he says. Dallas-based Jani-King's 2,222 franchises offer commercial cleaning services. He prefers people who have the spirit to be on their own but need training and guidance to run a cleaning business: "Basically, we need someone who has a really strong sense of responsibility. There's no fall-back position if something doesn't get done. The franchisee is all departments rolled into one."

Cavanaugh is directly involved on a day-to-day basis with his franchisees—"closer to the street than most franchise systems," he calls it. Jani-King's substantial support system for franchisees includes regional offices that offer on-site assistance.

There will always be some franchisees who leave the system, says Ervin, but the challenge now is for franchisors to start doing their homework on the prospective franchisees before signing on the dotted line.

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## COMMENTARY

# Congressional Alert

## Oil Development In Alaska

With imports of foreign oil representing more than 40 percent of U.S. oil consumption, Congress is expected to focus in 1991 on whether to permit oil and gas exploration and development on the coastal plain of the Arctic National



PHOTO: AP

### Wildlife Refuge in Alaska

Geologists believe the area may contain more oil and gas than any other U.S. onshore region. But no exploration and development may take place there without specific authorization by Congress.

Efforts to obtain that approval failed in the 101st Congress, in large part because of concern about possible harm to wildlife and wildlife habitats.

However, nearly two decades of successful and environmentally safe oil exploration and development in Alaska's Prudhoe Bay area provide strong evidence that oil and gas resources in the refuge also could be developed without environmental damage.

The U.S. Chamber of Commerce believes that expanded access to domestic oil and gas resources, such as those in the Alaskan refuge, is vital to reducing U.S. dependence on imports for domestic energy needs.

Contact your representative and senators, and urge them to support legislation to permit oil and gas exploration and development on the refuge's coastal plain.

## Quotas And Litigation

Proponents of so-called civil-rights legislation are expected to push for passage of a job-discrimination bill again this year.

If 1991 legislation is similar to last year's, it would lead to hiring and pro-



PHOTO: GREG WORSCH—THE STOCK MARKET

motion quotas and encourage unnecessary and excessive litigation against employers.

The Senate—by only one vote—sustained President Bush's veto of last year's bill, which would have overturned several job-related Supreme Court decisions.

The measure presumed, in effect, that a firm is guilty of discrimination if it does not have a work force with certain proportions based on race, sex, religion, and ethnic background. Other provisions would have amended federal law to allow plaintiffs to have jury trials and receive compensatory and punitive damages.

The U.S. Chamber of Commerce believes that true civil-rights legislation should reflect the premise that individuals should be hired on the basis of ability and promoted on the basis of merit—not because of their race, sex, religion, or ethnicity.

Contact your representative and senators. Urge them to oppose job-discrimination legislation that would lead to hiring quotas and encourage unnecessary litigation against employers.

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## Strike-Promoting Legislation

Legislation to amend the National Labor Relations Act to prohibit employers—whether their companies are union or nonunion—from hiring permanent replacements for striking workers has been introduced in Congress.



PHOTO: CLUSA GUNDRIS—BLACK STAR

The legislation, H.R. 5, if enacted, would encourage strikes and would severely restrict an employer's ability to operate during labor disputes. Workers would be emboldened to walk off the job, knowing that their jobs were secure, and unions could use the law as a powerful organizing tool.

The strike legislation would allow any group of two or more employees—including the more than 85 percent of employees nationwide who do not belong to a union—to walk off the job for any reason, or even without a reason, and the employer would be prohibited by law from hiring permanent replacements for those workers.

Because no permanent jobs could be offered, many employers would find it impossible to find workers who would be willing to fill the jobs of strikers on a temporary basis.

Temporary replacements would have to be let go or would have to be moved to other positions once the strikers returned to work.

Contact your representative and senators, and urge them to oppose the strike bill.



# Editorial

## Key To Recovery: A Reduction In The Costs Of Labor, Capital, And Savings

Within the first few days of 1991, the unemployment rate passed 6 percent for the first time in 3 1/2 years; a leading retail chain announced plans to lay off more than 20,000 workers; one of the nation's largest banks failed; the key stock market indicator plummeted; and White House figures showed that this year's deficit could hit \$400 billion.

Those and other adverse economic developments coincided with events that resulted in the Middle East war. Many economists expressed concern that a prolonged conflict could damage the economy further.

The events of early 1991 not only made it clear to the few remaining doubters that the country was in a recession but also signaled the likelihood that the downturn could be longer and deeper than had been expected when the economy began to sink.

The fundamental economic problem, however, is the inability of the White House and Congress to produce a joint strategy for turning the economy around fast enough to prevent serious damage.

As Vice President/Chief Economist Richard Rahn of the U.S. Chamber of Commerce puts it: "The toll incurred in [a prolonged] recession would be heavy. . . . Unless the Bush administration and the Congress take immediate steps to get the economy moving again, they must, and will, be held personally responsible."

Fortunately, Rahn adds, there is a humane alternative through which "both the length and severity of the recession could be substantially shortened and softened with a full guarantee of recovery." The mechanism for achieving those goals is an anti-recession plan drafted by the U.S. Chamber under the title "The Economic Growth and Jobs Creation Act of 1991."

Its key recommendations call for reductions in the cost of labor, capital, and savings.

Specific proposals include reducing the top capital-gains tax rate to 15 percent, cutting the Social Security payroll tax by approximately 2 percentage points (one point each for employer and employee), indexing depreciation schedules annually to compensate for inflation, and establishing a new type of individual retirement account—IRA Plus—to provide tax in-

centives that would increase savings significantly.

This plan makes both economic and political sense. The recommended tax relief would lead to increased investment, job creation, and higher consumer spending—all goals that command broad public support.

And the beauty of such stimulative tax cuts is that they generate economic activity that produces additional revenue for the federal government.

While the Economic Growth and Jobs Creation Act would get the nation out of recession, Congress must take additional steps to correct the fundamental problems that choked off the record peacetime recovery that started more than eight years ago. Congress must also:

- Abandon its chronic spending habits, which have contributed significantly to the economic damage;

- Overhaul the financial-services industry and reform the system of federal deposit insurance;

- End the recent surge of needless and burdensome regulation and require that every new regulatory proposal include a statement analyzing its potential impact on employment.

Another essential step is the adoption of sound, predictable Federal Reserve Board policies based on rules that work to hold inflation in check.

The present economic outlook is grim. In the absence of the prompt and decisive action recommended in the Chamber plan, the reality could be much worse than today's worst expectations.

In a prolonged recession, average family income would decline by \$5,500, 4.6 million jobs would be lost, and the ranks of Americans living in poverty would swell by 13 percent.

Quick action on the tax-relief proposals of the Economic Growth and Jobs Creation Act would save 1.5 million jobs, keep 2 million individuals out of poverty, increase annual family income by \$2,000, and increase economic output by \$195 billion more than would be realized in a deep and prolonged recession.

The choice is clear. The administration and Congress must act now on these proposals for restoring the nation to economic health.



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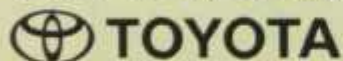
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